

SVB FINANCIAL GROUP

FORM 10-K (Annual Report)

Filed 03/11/04 for the Period Ending 12/31/03

Address	3003 TASMAN DR SANTA CLARA, CA 95054
Telephone	4086547400
CIK	0000719739
Symbol	SIVB
SIC Code	6022 - State Commercial Banks
Industry	Regional Banks
Sector	Technology
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission File Number: 000-15637

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
(Address of principal executive offices)

95054-1191
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (\$0.001 par value)
(Title of each class)

Nasdaq National Market
(Name of each exchange on which registered)

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of June 30, 2003, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of its common stock on such date, on the Nasdaq National Market was \$821,212,829.

At January 31, 2004, 35,136,142 shares of the registrant's common stock (\$0.001 par value) were outstanding.

Documents Incorporated by Reference

Documents Incorporated

Definitive proxy statement for the Company's 2004 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2003

Parts of Form 10-K
Into Which Incorporated

Part III

TABLE OF CONTENTS

	<u>Page</u>
PART I	
ITEM 1. BUSINESS	3
ITEM 2. PROPERTIES	12
ITEM 3. LEGAL PROCEEDINGS	12
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	12

PART II

ITEM 5.	MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	13
ITEM 6.	SELECTED CONSOLIDATED FINANCIAL DATA	14
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	46
ITEM 8.	CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	54
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	103
ITEM 9A.	CONTROL AND PROCEDURES	103
PART III		
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	103
ITEM 11.	EXECUTIVE COMPENSATION	103
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	103
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	104
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	104
PART IV		
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K	104
SIGNATURES		106
INDEX TO EXHIBITS		107

PART I

ITEM 1. BUSINESS

General

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

For over 20 years, we have been dedicated to helping entrepreneurs succeed, specifically focusing on industries where we have deep knowledge and relationships. Our focus remains on the technology, life science, private equity, and premium wine niches. In 2003, we continued to diversify our services to support our clients throughout their life cycles, regardless of their age or size. We offer a range of financial services that generate three distinct sources of income.

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

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

In addition, we seek to obtain equity returns through investments in direct private equity and venture capital fund investments. We also manage two limited partnerships: a venture capital fund and a fund that invests in venture capital funds.

We serve over 9,500 clients nationwide and have venture capital relationships in over 20 countries around the world. To deliver high quality, localized service we have 13 offices throughout California and operate 26 regional offices across the country in Arizona, Colorado, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia, and Washington. Our focus on the technology, life sciences, and premium winery markets and our extensive knowledge of the people and business issues driving them, provide a level of service and partnership that contributes to our clients' success.

Business Overview

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

Commercial Banking

We provide domestic and international cash management services including deposit services, collection services, disbursement services, electronic funds transfers, and online banking through SVBeConnect. Our lending services include traditional term loans, commercial finance lending, and structured finance lending. Global financial services that we provide include global treasury, global trade, foreign exchange and global finance.

Investment services are provided through our broker-dealer, SVB Securities, which offers mutual funds and fixed income securities. SVB Asset Management provides investment advisory services.

Merchant Banking

We provide banking services to private equity and venture capital firms, make direct private equity and venture capital fund investments, establish and maintain international alliances with venture capital firms, and manage two limited partnerships: a venture capital fund and a fund that invests in venture capital funds.

Investment Banking

We offer merger and acquisition, corporate partnering and advisory services through our subsidiary, Alliant Partners. In October 2003, Alliant launched a Private Capital Group and began offering advisory services for the private placement of securities.

Private Banking

Through the SVB Private Bank we provide a wide array of loans, personal asset management, mortgage services, and trust and estate planning tailored for high-net-worth individuals. We also provide investment advisory services to these clients through our subsidiary, Woodside Asset Management, Inc. In January 2004, our Private Banking division changed its name to “Private Client Services Group.”

Industry Niches

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

Technology and Life Science

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

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

With an extended suite of financial services, we have successfully expanded our business to more mature companies. Our Corporate Technology practice is a network of senior lenders in every geographic region in which we operate, focused solely on the specific financial needs of mature private and public clients. Today, we can comfortably address the financial needs of all companies in our niches, whether they are entrepreneurs with innovative ideas or multinational corporations with hundreds of millions of dollars in sales.

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

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

Private Equity

Through our Merchant Banking division, we have cultivated strong relationships with venture capital firms worldwide, many of which are also clients. Our Private Equity Services group provides financial

services to over half of the venture capital firms in the U.S. as well as other private equity firms, facilitating deal flow to and from these private equity firms, and participating in direct investments in their portfolio companies.

Premium Wine

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

Industry Niches Exited

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

For further information on our business segments, see “Item 8. Consolidated Financial Statements and Supplementary Data—Note 14 to the Consolidated Financial Statements—Segment Reporting.”

Business Combinations

On October 1, 2002, we acquired substantially all of the assets of Woodside Asset Management, Inc., an investment advisor firm, which has approximately \$200 million under management for 70 clients. We are offering Woodside Asset Management’s services as part of our private banking services. Additionally, as part of this acquisition, Silicon Valley Bancshares obtained the general partner interests in two limited partnerships, Taurus Growth Partners, L.P. and Libra Partners, L.P., with total assets aggregating \$12.3 million as of December 31, 2003. We have less than a 1% ownership interest in each of these funds. The remaining ownership interest represents limited partners’ funds invested on their behalf by the general partner in certain fixed income and marketable equity securities. However, due to our ability to control the investing activities of these limited partnerships, we have consolidated the related results of operations and financial condition into our consolidated financial statements as of and for the year ended December 31, 2003. This acquisition did not have a material impact on goodwill and is not expected to materially impact our earnings in the short term.

On September 28, 2001, a subsidiary of Silicon Valley Bank, SVB Securities, Inc., completed the acquisition of Alliant Partners, an investment banking firm providing merger and acquisition and corporate partnering services. Our investment banking business continues to do business under the name “Alliant Partners.” See “Item 8. Consolidated Financial Statements and Supplementary Data—Note 2 to the Consolidated Financial Statements—Business Combinations.” On October 1, 2002, Alliant Partners was sold from our Silicon Valley Bank subsidiary to the Silicon Valley Bancshares parent company. This transfer allowed Alliant Partners to operate under less restrictive bank holding company regulations and increased our capital ratios at Silicon Valley Bank.

Competition

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

Employees

As of December 31, 2003, we employed approximately 969 full-time equivalent employees. None of our employees are represented by a labor union. Competition for qualified personnel in our industry is significant, particularly for client relationship manager positions, officers, and employees with strong

relationships with the venture capital community. Our future success will depend in part on our continued ability to attract, hire, and retain qualified personnel.

Supervision and Regulation

General

Our operations are subject to extensive regulation by federal and state regulatory agencies. As a bank holding company, Silicon Valley Bancshares is subject to the Federal Reserve Board's supervision, regulation, examination and reporting requirements under the Bank Holding Company Act of 1956 ("BHC Act"). Silicon Valley Bancshares has also qualified and elected to be treated as a financial holding company under the BHC Act. Silicon Valley Bank, as a California-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve Bank of San Francisco and the California Department of Financial Institutions. Both Silicon Valley Bancshares and Silicon Valley Bank are required to file periodic reports with these regulators and provide any additional information that they may require. The following summary describes some of the more significant laws, regulations and policies that affect our operations, and is not intended to be a complete listing of all laws that apply to us. Any change in the statutes, regulations, or policies that apply to our operations may have a material effect on our business.

Regulation of Holding Company

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

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

The Gramm-Leach-Bliley Act of 1999 ("GLB Act") amended the BHC Act to permit a qualifying bank holding company, called a financial holding company, to engage in a broader range of activities than those traditionally permissible for bank holding companies. A financial holding company may conduct activities that are "financial in nature," including insurance, securities underwriting and dealing and market-making, and merchant banking activities, as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the Treasury Department) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. The GLB Act also permits financial holding companies to acquire companies engaged in activities that are financial in nature or that are incidental or complementary to financial activities without the prior approval of the Federal Reserve Board. The GLB Act also repealed the provisions of the Glass-Steagall Act that restricted banks and securities firms from affiliating. On November 14, 2000, Silicon Valley Bancshares became a financial holding company. As a financial holding company, Silicon Valley Bancshares no longer requires the prior approval of the Federal Reserve Board to conduct, or to acquire ownership or control of entities engaged in, activities that are financial in nature or activities that are determined to be incidental or complementary to financial activities, although the requirement in the BHC

Act for prior Federal Reserve Board approval for the acquisition by a bank holding company of more than 5% of any class of the voting shares of a bank or savings association (or the holding company of either) is still applicable. Additionally, under the merchant banking authority added by the GLB Act, Bancshares may invest in companies that engage in activities that are not otherwise permissible, subject to certain limitations, including that Bancshares make the investment with the intention of limiting the investment in duration and does not manage the company on a day-to-day basis.

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

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

Regulatory Capital

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

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

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

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

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

The capital ratios of Silicon Valley Bancshares and Silicon Valley Bank, respectively, exceeded the well-capitalized requirements, as defined above, at December 31, 2003. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 23 to the Consolidated Financial Statements—Regulatory Matters" for the capital ratios of Silicon Valley Bancshares and Silicon Valley Bank as of December 31, 2003.

Regulation of Silicon Valley Bank

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

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

Restrictions on Dividends

Bancshares' ability to pay cash dividends is limited by generally applicable Delaware corporation law limits. In addition, Bancshares is a legal entity separate and distinct from Silicon Valley Bank, and there are statutory and regulatory limitations on the amount of dividends that may be paid to Bancshares by Silicon Valley Bank. During 2003, 2002, and 2001, Silicon Valley Bank paid dividends of \$51.0 million, \$80.0 million, and \$140.0 million, respectively, to Bancshares. Consequently, under these regulatory restrictions, the remaining amount available for payment of dividends to Bancshares by Silicon Valley Bank totaled \$2.8 million at December 31, 2003. The Federal Reserve Board and the California Commissioner of Financial Institutions (the "Commissioner") have the authority to prohibit Silicon Valley Bank from engaging in activities that, in their opinion, constitute unsafe or unsound practices in conducting its business. Depending upon the financial condition of Silicon Valley Bank and other factors, the regulators could assert that the payment of dividends or other payments might, under some circumstances, be an unsafe or unsound practice. If Silicon Valley Bank fails to comply with its minimum capital requirements, its regulators could restrict its ability to pay dividends using prompt corrective action or other enforcement powers. The Commissioner may impose similar limitations on the conduct of California-chartered banks. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 23 to the Consolidated Financial Statements—Regulatory Matters" for further discussion on dividend restrictions.

Transactions between Silicon Valley Bank and its operating subsidiaries, on the one hand, and their affiliates, on the other, are subject to restrictions imposed by federal and state law. These restrictions prevent Bancshares and other affiliates from borrowing from, or entering into other credit transactions with, Silicon Valley Bank or its operating subsidiaries unless the loans or other credit transactions are secured by specified amounts of collateral. All such loans and credit transactions and other “covered transactions” by Silicon Valley Bank and its operating subsidiaries with any one affiliate are limited, in the aggregate, to 10% of Silicon Valley Bank’s capital and surplus; and all such loans and credit transactions and other “covered transactions” by Silicon Valley Bank and its operating subsidiaries with all affiliates are limited, in the aggregate, to 20% of Silicon Valley Bank’s capital and surplus. For this purpose, “covered transaction” generally includes, among other things, a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of a security issued by an affiliate as collateral for an extension of credit to any borrower, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. A company that is a direct or indirect subsidiary of Silicon Valley Bank would not be considered to be an “affiliate” of Silicon Valley Bank or its operating subsidiaries unless it fell into one of certain categories, such as a “financial subsidiary” authorized under the GLB Act. In addition, Silicon Valley Bank and its operating subsidiaries generally may not purchase a low-quality asset from an affiliate, and covered transactions and other specified transactions by Silicon Valley Bank and its operating subsidiaries with an affiliate must be on terms and conditions that are consistent with safe and sound banking practices. Also, Silicon Valley Bank and its operating subsidiaries generally may engage in transactions with affiliates only on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable

to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Prompt Corrective Action and Other Enforcement Mechanisms

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

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

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

Safety and Soundness Guidelines

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

Premiums for Deposit Insurance

Silicon Valley Bank's deposit accounts are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum permitted by law. The FDIC assesses an annual premium to maintain a sufficient Fund balance. The amount charged is based on the capital level of an institution and on a supervisory assessment based upon the results of examinations findings by the institution's primary federal regulator and other information deemed relevant by the FDIC to the institution's financial condition and the risk posed to the Bank Insurance Fund. As of December 31, 2003, the FDIC's assessment for the insurance of BIF deposits ranged from 0 to 27 basis points per \$100 of insured deposits. The FDIC may increase or decrease the premium rate on a semi-annual basis. As of December 31, 2003, Silicon Valley Bank's assessment rate was the statutory minimum.

Silicon Valley Bank is also required to pay an annual assessment of approximately 1.5 basis points per \$100 of insured deposits toward the retirement of U.S. government-issued financing corporation bonds.

Community Reinvestment Act and Fair Lending

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

Privacy

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

USA Patriot Act of 2001

As part of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA Patriot Act”), Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (IMLAFATA). IMLAFATA amended the Bank Secrecy Act and adopted certain additional measures that established or increased already existing obligations of financial institutions, including Silicon Valley Bank, to identify their customers, watch for and report upon suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, and share information with other financial institutions. The Secretary of the Treasury has adopted several regulations to implement these provisions. Silicon Valley Bank is also barred from dealing with foreign “shell” banks. In addition, IMLAFATA expands the circumstances under which funds in a bank account may be forfeited. IMLAFATA also amended the BHC Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing an application to expand operations. Silicon Valley Bank has in place a Bank Secrecy Act compliance program.

Regulation of Certain Subsidiaries

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

Our broker-dealer subsidiaries are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Exchange Act”), which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, our broker-dealer subsidiaries are required to maintain the minimum net capital deemed necessary to meet broker-dealers’ continuing commitments to customers and others.

Under certain circumstances, this rule could limit the ability of Bancshares to withdraw capital from Alliant Partners and limit the ability of Silicon Valley Bank to withdraw capital from SVB Securities.

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

Available Information

Our Internet address is <http://www.svb.com>. We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Bancshares was incorporated in Delaware in 1999.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 3003 Tasman Drive, Santa Clara, California in three buildings, approximating 215,000 square feet in total. The leases related to our corporate headquarter facilities in Santa Clara expire in May 2005.

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

We currently operate 26 regional offices. We operate throughout the Silicon Valley with offices in Fremont, Santa Clara, Palo Alto, and on Sand Hill Road, which is the center of the venture capital community in California. Other regional offices in California include: Irvine, Los Angeles, Napa Valley, San Diego, San Francisco, Santa Barbara, and Sonoma. Office locations outside of California include: Phoenix, Arizona; Boulder, Colorado; Atlanta, Georgia; Chicago, Illinois; Boston, Massachusetts; Minneapolis, Minnesota; New York, New York; Durham, North Carolina; Portland, Oregon; Philadelphia, Pennsylvania; Austin, Texas; Dallas, Texas; Northern Virginia; and Seattle, Washington. All of our properties are occupied under leases, which expire at various dates through 2011, and in most instances include options to renew or extend at market rates and terms. We also own leasehold improvements, equipment, furniture, and fixtures at our offices, all of which are used in our business activities.

ITEM 3. LEGAL PROCEEDINGS

There were no legal proceedings requiring disclosure pursuant to this item pending at December 31, 2003, or at the date of this report.

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

No matters were submitted to a vote by the stockholders of Silicon Valley Bancshares' common stock during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded over the counter on the National Association of Securities Dealers Automated Quotation (Nasdaq) national market under the symbol "SIVB."

The following table shows the high and low sales prices for our common stock for each quarterly period during the last two years, based on the daily closing price as reported by the Nasdaq national market.

Quarter	2003		2002	
	Low	High	Low	High
First	\$ 15.71	\$ 19.63	\$ 21.17	\$ 31.25
Second	\$ 18.11	\$ 27.00	\$ 25.30	\$ 33.87
Third	\$ 22.66	\$ 31.00	\$ 16.75	\$ 27.01
Fourth	\$ 27.46	\$ 37.25	\$ 14.58	\$ 19.94

Stockholders

There were 705 registered holders of our stock as of December 31, 2003. Additionally, we believe there were approximately 8,194 beneficial holders of common stock whose shares are held in the name of brokerage firms or other financial institutions. We are not provided with the number or identities of all of these stockholders, but we have estimated the number of such stockholders from the number of stockholder documents requested by these brokerage firms for distribution to their customers.

Dividends

We have not paid cash dividends on our common stock since 1992. Currently, we have no plan to pay cash dividends on our common stock. Periodically, we evaluate the decision of paying cash dividends in the context of our performance, general economic performance, and relevant tax and financial parameters. Our ability to pay cash dividends is limited by generally applicable corporate and banking laws and regulations. See “Item 1. Business—Supervision and Regulation—Restrictions on Dividends,” and “Item 8. Consolidated Financial Statements and Supplementary Data—Note 23 to the Consolidated Financial Statements—Regulatory Matters” for additional discussion on restrictions and limitations on the payment of dividends imposed on us by government regulations.

The information required by this Item regarding equity compensation plans is incorporated by reference to the information set forth in Item 12 of this report.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this report. Certain reclassifications have been made to our prior years’ results to conform to 2003 presentations. Such reclassifications had no effect on the results of operations or stockholders’ equity. In addition, the common stock summary information has been restated to reflect a two-for-one stock split on May 15, 2000.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
(Dollars and shares in thousands, except per share amounts)					
Income Statement Summary:					
Net interest income	\$ 188,884	\$ 194,708	\$ 262,985	\$ 329,848	\$ 205,439
Provision for loan losses	(6,223)	3,882	16,724	54,602	52,407
Noninterest income	75,060	67,858	70,833	189,630	58,855
Noninterest expense	262,687	186,374	183,488	198,361	125,659
Minority interest	7,689	7,767	7,546	460	—
Income before income tax expense	15,169	80,077	141,152	266,975	86,228
Income tax expense	3,192	26,719	52,998	107,907	34,030
Net income	\$ 11,977	\$ 53,358	\$ 88,154	\$ 159,068	\$ 52,198
Common Share Summary:					
Earnings per share—basic	\$ 0.33	\$ 1.21	\$ 1.85	\$ 3.41	\$ 1.27
Earnings per share—diluted	0.32	1.18	1.79	3.23	1.23
Book value per share	12.76	14.55	13.82	12.54	8.23
Weighted average shares outstanding—basic	36,109	44,000	47,728	46,656	41,258
Weighted average shares outstanding—diluted	37,321	45,080	49,155	49,220	42,518
Year-End Balance Sheet Summary:					
Investment securities	\$ 1,575,434	\$ 1,535,694	\$ 1,833,162	\$ 2,107,590	\$ 1,747,408
Loans, net of unearned income	1,989,229	2,086,080	1,767,038	1,716,549	1,623,005
Goodwill	37,549	100,549	96,380	—	—
Assets	4,465,370	4,183,181	4,172,077	5,626,775	4,596,398
Deposits	3,666,876	3,436,127	3,380,977	4,862,259	4,109,405
Long-term debt	204,286	17,397	25,685	—	—
Trust preferred securities(1)	—	39,472	38,641	38,589	38,537
Stockholders’ equity	447,005	590,350	627,515	614,121	368,850
Average Balance Sheet Summary:					
Investment securities	\$ 1,440,517	\$ 1,554,035	\$ 1,817,379	\$ 1,932,461	\$ 1,576,630
Loans, net of unearned income	1,800,022	1,762,296	1,656,958	1,580,176	1,591,634
Goodwill	91,992	98,252	24,955	—	—
Assets	4,040,523	3,866,242	4,372,000	5,180,750	3,992,410
Deposits	3,277,594	3,063,516	3,581,725	4,572,457	3,681,598
Long-term debt	105,477	23,769	6,652	—	—
Trust preferred securities(1)	43,683	38,667	38,611	38,559	38,507
Stockholders’ equity	494,998	631,005	651,861	478,018	238,085
Capital Ratios:					
Total risk-based capital ratio	16.6 %	16.0 %	17.2 %	17.7 %	15.5 %
Tier 1 risk-based capital ratio	12.0 %	14.8 %	15.9 %	16.5 %	14.3 %
Tier 1 leverage ratio	10.3 %	13.9 %	14.8 %	12.0 %	8.8 %
Average stockholders’ equity to average assets	12.3 %	16.3 %	14.9 %	9.2 %	6.0 %
Selected Financial Ratios:					
Return on average assets	0.3 %	1.4 %	2.0 %	3.1 %	1.3 %
Return on average stockholders’ equity	2.4 %	8.5 %	13.5 %	33.3 %	21.9 %
Net interest margin(1)	5.3 %	5.7 %	6.8 %	6.9 %	5.5 %
Other Data:					
Private label client investments, sweep products, and assets under management	\$ 9,346,128	\$ 8,495,321	\$ 9,283,368	\$ 10,805,694	\$ 5,666,278

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this report. Certain reclassifications have been made to our prior years' results to conform to 2003 presentations. Such reclassifications had no effect on our results of operations or stockholders' equity.

Overview of Company Operations

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 remains on the technology, life science, private equity, and premium wine niches. In 2003, we continued to diversify our services to support our clients throughout their life cycles, regardless of their age or size. We offer a range of financial services that generate three distinct sources of income.

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

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

In addition, we seek to obtain equity returns through investments in direct private equity and venture capital fund investments. We also manage two limited partnerships: a venture capital fund and a fund that invests in venture capital funds.

Critical Accounting Policies

The accompanying management's discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (US 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, including those related to the marketable and non-marketable equity securities, allowance for loan losses, and goodwill. Management bases its estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

We believe the accounting policies discussed below are the most critical to our financial statements because their application places the most significant demands on management's judgments. Each estimate is discussed below. The financial impact of each estimate, to the extent significant to financial results, is discussed in the applicable sections of the management's discussion and analysis.

Executive management discussed the development, selection, and disclosure of these critical accounting policies with our audit committee on January 28, 2004.

Marketable Equity Securities

Our investments in marketable equity securities include:

- Unexercised warrants for shares of publicly-traded companies.
- Investments in shares of publicly-traded companies. Equity securities in our warrant, direct equity, and venture capital fund portfolios generally become marketable when a portfolio company completes an initial public offering on a publicly-reported market, or is acquired by a publicly-traded company.
- Marketable equity securities related to Taurus Growth Partners, L.P. and Libra Partners, L.P. For information on these entities, see “Item 1. Business—Business Combinations.”

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

- Unrealized gains or losses after applicable taxes, on available-for-sale marketable equity securities that result from initial public offerings are excluded from earnings and are reported in accumulated other comprehensive income, which is a separate component of stockholders’ equity. We are often contractually restricted from selling equity securities, for a certain period of time, subsequent to the portfolio company’s initial public offering. Gains or losses on these marketable equity instruments are recorded in our consolidated statements of income in the period the underlying securities are sold to a third party.
- Gains or losses on marketable warrant and equity investment securities that result from a portfolio company being acquired by a publicly-traded company are marked to market when the acquisition occurs. The resulting gains or losses are recognized into income on that date, in accordance with Emerging Issues Task Force, Issue No. 91-5, “Nonmonetary Exchange of Cost-Method Investments.” Further fluctuations in the market value of these marketable equity instruments, prior to eventual sale, are excluded from earnings and are reported in accumulated other comprehensive income, which is a separate component of stockholders’ equity. Upon the sale of these equity securities to a third party, gains and losses, which are measured from the acquisition price, are recognized in our consolidated statements of income.
- If we possess a warrant that can be settled with a net cash payment to us, the warrant meets the definition of a derivative instrument. Changes in fair value of such derivative instruments are recognized as securities gains or losses in our consolidated statements of income.

Notwithstanding the foregoing, a decline in the fair value of any of these securities that is considered other than temporary is recorded in our consolidated statements of income in the period the impairment occurs. The cost basis of the underlying security is written down to fair value as a new cost basis.

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

Non-Marketable Equity Securities

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

- By direct purchases of preferred or common stock in privately-held companies
- By capital contributions to venture capital funds, which in turn, make investments in preferred or common stock of privately held companies

- Through our venture capital fund, Silicon Valley BancVentures, L.P., which makes investments in preferred or common stock of privately held companies
- Through our fund of funds, SVB Strategic Investors Fund, L.P., which makes investments in venture capital funds, which in turn, invest in privately held companies

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

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

Private Equity and Venture Capital Fund Investments

Wholly-Owned by Bancshares	Cost basis less identified impairment, if any
Owned by Silicon Valley BancVentures, L.P. and SVB Strategic Investors Fund, L.P.	Investment company accounting, adjusted to fair value on a quarterly basis through the statement of income

Bancshares' wholly-owned non-marketable venture capital fund investments and other direct equity investments are recorded on a cost basis as our interests are considered minor because we own less than 5% of the company and have no influence over the company's operating and financial policies. Our cost basis in each investment is reduced by returns until the cost basis of the individual investment is fully recovered. Returns in excess of the cost basis are recorded as investment gains in noninterest income.

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

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

The SVB Strategic Investors Fund, L.P. portfolio consists primarily of investments in venture capital funds, which are recorded at fair value using investment company accounting rules. The carrying value of the investments is determined by the general partner based on the percentage of SVB Strategic Investors Fund, L.P.'s interest in the total fair market value as provided by each venture capital fund investment. SVB Strategic Investors, LLC generally utilizes the fair values assigned to the underlying portfolio investments by the management of the venture capital funds. The estimated fair value of the investments is determined after giving consideration to the relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other pertinent information. The general partner, SVB Strategic Investors, LLC, is owned and controlled by Bancshares and has an ownership interest of 11.1% in SVB Strategic Investors Fund, L.P. Therefore, SVB Strategic Investors Fund, L.P. is fully consolidated and any gains or losses resulting from changes in the estimated fair value of the venture capital fund investments are recorded as investment gains or losses in our consolidated statements of income. The

limited partner's share of any gains or losses is reflected in minority interest in net losses of consolidated affiliates and adjusts Bancshares' income to its percentage ownership.

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

Allowance for Loan Losses

We consider our accounting policy relating to the estimation of the allowance for loan losses to be critical as estimation of the allowance involves material estimates by our management and is particularly susceptible to significant changes in the near term.

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

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

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

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

and the establishment of the allowance for loan losses, relies, to a great extent, on the judgment and experience of our management.

Historical Loan Loss Migration Model

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

We analyze the historical loan loss migration trend by compiling gross loan loss data and by credit risk-rating for the rolling twelve-month periods as of the end of each quarter. Each of the loans charged-off over the twelve-month period is assigned a credit risk rating at the period end of each of the preceding four quarters. On an annual basis, the model calculates charged-off loans as a percentage of current period end loans by credit risk-rating category. The percentages are averaged and are aggregated to estimate our loan loss factors. The annual periods reviewed and averaged to form the loan loss factors will be limited to twelve quarters beginning March 31, 2004 when our ten grade risk rating system will have twelve quarters of history. The current period end client loan balances are aggregated by risk-rating category. Loan loss factors for each risk-rating category are ultimately applied to the respective period end client loan balances for each corresponding risk-rating category, to provide an estimation of the allowance for loan losses.

Contingent and Macro Allocations

Additionally, we apply a contingent allocation to the results of this model. Our contingent allocation acknowledges that unfunded credit obligations can result in future losses. Unfunded credit obligations at each quarter end are allocated to credit risk-rating categories in accordance with the client's credit risk-rating. We provide for the risk of loss on unfunded credit obligations by allocating fixed credit risk-rating factors to our unfunded credit obligations.

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

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

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

Goodwill

Goodwill, which arises from the purchase price exceeding the assigned value of the net assets of an acquired business, represents the value attributable to unidentifiable intangible elements being acquired. The majority of our goodwill resulted from the acquisition of Alliant Partners, a mergers and acquisitions

firm. The value of this goodwill is supported ultimately by revenue from the acquired businesses. A decline in earnings as a result of a decline in mergers and acquisitions transaction volume or a decline in the valuations of mergers and acquisitions clients could lead to impairment, which would be recorded as a write-down in our consolidated statements of income.

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

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

Events that may indicate goodwill impairment include significant or adverse changes in results of operations of the business, economic or political climate; an adverse action or assessment by a regulator; unanticipated competition; and a more likely-than-not expectation that a reporting unit will be sold or disposed of. More information about goodwill is included in “Item 8. Consolidated Financial Statements and Supplementary Data—Note 9 to the Consolidated Financial Statements—Goodwill” and “Item 7A. Quantitative and Qualitative Disclosures about Market Risk—Factors That May Affect Future Results.”

Results of Operations

Earnings Summary

We reported net income in 2003 of \$12.0 million, as compared to net income of \$53.4 million in 2002 and \$88.2 million in 2001. Diluted earnings per common share totaled \$0.32 in 2003, as compared to \$1.18 in 2002, and \$1.79 in 2001. Return on average equity in 2003 was 2.4%, as compared to 8.5% in 2002, and 13.5% in 2001. Return on average assets was 0.3% in 2003, as compared to 1.4% in 2002, and 2.0% in 2001.

The decrease in net income between 2002 and 2003, primarily resulted from an increase of \$76.3 million in noninterest expense. The increase in noninterest expense was principally due to the following factors: (1) impairment of goodwill charges aggregating \$63.0 million related to Alliant Partners, and (2) an increase in expense associated with our incentive compensation program, which we believe was necessary to retain our professional talent in an improving economic environment. Additionally, due to a decrease in the weighted-average prime rate from 4.7% in 2002 to 4.1% in 2003, we earned lower interest income from our investment securities and loan portfolios, which resulted in a decline in net interest income. However, our provision for loan and lease loss expense decreased by \$10.1 million between 2002 and 2003, largely due to a significant loan loss recovery in the third quarter of 2003 and our improved credit quality.

The decrease in net income for 2002 as compared to 2001 was primarily attributable to a decline in both net interest income and noninterest income, partially offset by decreases in both provision for loan losses and income tax expense. The major components of net income and changes in these components are summarized in the following table for the years ended December 31, 2003, 2002, and 2001, and are discussed in more detail on the following pages.

	Years Ended December 31,				
	2003	2002	2001	% Change 2003 / 2002	% Change 2002 / 2001
	(Dollars in thousands)				
Net interest income	\$ 188,884	\$ 194,708	\$ 262,985	(3.0)%	(26.0)%
Provision for loan losses	(6,223)	3,882	16,724	(260.3)	(76.8)
Noninterest income	75,060	67,858	70,833	10.6	(4.2)
Noninterest expense	262,687	186,374	183,488	40.9	1.6
Minority interest	7,689	7,767	7,546	(1.0)	2.9
Income before income tax expense	15,169	80,077	141,152	(81.1)	(43.3)
Income tax expense	3,192	26,719	52,998	(88.1)	(49.6)
Net income	<u>\$ 11,977</u>	<u>\$ 53,358</u>	<u>\$ 88,154</u>	<u>(77.6)%</u>	<u>(39.5)%</u>

Net Interest Income and Margin

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

interest expense as a percentage of average interest-earning assets.

The following table sets forth average assets, liabilities, minority interest and stockholders' equity, interest income and interest expense, average yields and rates, and the composition of our net interest margin for the years ended December 31, 2003, 2002, and 2001.

	Years Ended December 31,								
	2003			2002			2001		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
(Dollars in thousands)									
Interest-earning assets:									
Federal funds sold and securities purchased under agreement to resell(1)	\$ 385,169	\$ 4,530	1.2%	\$ 153,185	\$ 2,865	1.9%	\$ 509,965	\$ 25,421	5.0%
Investment securities:									
Taxable	1,297,920	42,789	3.3	1,376,977	46,585	3.4	1,522,785	79,245	5.2
Non-taxable(2)	142,597	9,613	6.7	177,058	10,606	6.0	294,594	16,616	5.6
Loans:(3)(4)(5)									
Commercial	1,508,961	134,589	8.9	1,508,204	141,697	9.4	1,459,748	167,850	11.5
Real estate construction and term	98,720	5,989	6.1	102,479	7,245	7.1	83,389	8,819	10.6
Consumer and other	192,341	8,192	4.3	151,613	7,298	4.8	113,821	8,190	7.2
Total loans	1,800,022	148,770	8.3	1,762,296	156,240	8.9	1,656,958	184,859	11.2
Total interest-earning assets	3,625,708	205,702	5.7	3,469,516	216,296	6.2	3,984,302	306,141	7.7
Cash and due from banks	192,591			182,400			239,571		
Allowance for loan losses	(72,044)			(74,845)			(76,287)		
Goodwill	91,992			98,252			24,955		
Other assets	202,276			190,919			199,459		
Total assets	\$ 4,040,523			\$ 3,866,242			\$ 4,372,000		
Funding sources:									
Interest-bearing liabilities:									
NOW deposits	\$ 23,447	105	0.4	\$ 33,567	220	0.7	\$ 42,037	381	0.9
Regular money market deposits	332,632	1,824	0.5	288,238	2,751	1.0	269,886	3,034	1.1
Bonus money market deposits	673,982	3,686	0.5	614,378	5,855	1.0	733,412	8,580	1.2
Time deposits	485,199	3,468	0.7	610,996	7,403	1.2	792,031	24,871	3.1
Short-term borrowing	9,217	257	2.8	33,824	1,083	3.2	10,682	265	2.5
Long-term debt	105,477	1,087	1.0	23,769	564	2.4	6,652	210	3.2
Trust preferred securities(6)	24,490	3,026	12.4	—	—	—	—	—	—
Total interest-bearing liabilities	1,654,444	13,453	0.8	1,604,772	17,876	1.1	1,854,700	37,341	2.0
Portion of noninterest-bearing funding sources	1,971,264			1,864,744			2,129,602		
Total funding sources	3,625,708	13,453	0.4	3,469,516	17,876	0.5	3,984,302	37,341	0.9
Noninterest-bearing funding sources:									
Demand deposits	1,762,334			1,516,337			1,744,359		
Other liabilities	72,073			44,316			52,023		
Trust preferred securities(6)	19,193			38,667			38,611		
Minority interest	37,481			31,145			30,446		
Stockholders' equity	494,998			631,005			651,861		
Portion used to fund interest-earning assets	(1,971,264)			(1,864,744)			(2,129,602)		
Total liabilities, minority interest and stockholders' equity	\$ 4,040,523			\$ 3,866,242			\$ 4,372,000		
Net interest income and margin	\$ 192,249	5.3%		\$ 198,420	5.7%		\$ 268,800	6.8%	
Total deposits	\$ 3,277,594			\$ 3,063,516			\$ 3,581,725		

- (1) Includes average interest-bearing deposits in other financial institutions of \$783, \$609, and \$568 in 2003, 2002 and 2001, respectively.
- (2) Interest income on nontaxable investments is presented on a fully taxable-equivalent basis using the federal statutory tax rate of 35% for all years presented. These adjustments were \$3,365, \$3,712, and \$5,815 for the years ended December 31, 2003, 2002, and 2001, respectively.
- (3) Average loans include average nonaccrual loans of \$16,089, \$19,602, and \$21,565 in 2003, 2002, and 2001, respectively.
- (4) Average loans are net of average unearned income of \$12,573, \$11,651, and \$7,669 in 2003, 2002, and 2001, respectively.
- (5) Loan interest income includes loan fees of \$36,348, \$36,701, and \$37,407 in 2003, 2002 and 2001, respectively.
- (6) Adoption of FIN No. 46 and SFAS No. 150 in the latter half of 2003 resulted in a change of classification of trust preferred securities distribution expense from noninterest expense to interest expense on a prospective basis. Additionally, the adoption of FIN No. 46 and SFAS No. 150 resulted in a change of classification of Trust Preferred Securities from noninterest bearing funding sources to interest-bearing liabilities on a prospective basis. Prior to adoption of FIN No. 46 and SFAS No. 150, in accordance with accounting rules in effect at that time, the company recorded trust preferred securities distribution expense as noninterest expense. On October 30, 2003, \$50.0 million in cumulative 7.0% Trust Preferred Securities were issued through a newly formed special purpose trust, SVB Capital II. We received \$51.5 million in proceeds from the issuance of 7.0% Junior Subordinated Debentures to SVB Capital II. A portion of the net proceeds were used to redeem the existing \$40.0 million of 8.25% Trust Preferred Securities. Approximately \$1.3 million of deferred issuance costs related to redemption of the \$40.0 million 8.25% Trust Preferred Securities were included in interest expense in the fourth quarter of 2003.

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

	Increase (Decrease) Due to Changes in			(Decrease) Increase Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
(Dollars in thousands)						
Interest income:						
Federal funds sold and securities purchased under agreement to resell	\$ 3,102	\$ (1,437)	\$ 1,665	\$ (11,905)	\$ (10,651)	\$ (22,556)
Investment securities	(4,696)	(93)	(4,789)	(14,099)	(24,571)	(38,670)
Loans	3,442	(10,912)	(7,470)	11,391	(40,010)	(28,619)
Increase (decrease) in interest income	1,848	(12,442)	(10,594)	(14,613)	(75,232)	(89,845)
Interest expense:						
NOW deposits	(52)	(63)	(115)	(69)	(92)	(161)
Regular money market deposits	426	(1,353)	(927)	171	(454)	(283)
Bonus money market deposits	599	(2,768)	(2,169)	(1,201)	(1,524)	(2,725)
Time deposits	(1,328)	(2,607)	(3,935)	(4,766)	(12,702)	(17,468)
Short-term borrowings	(701)	(125)	(826)	724	94	818
Long-term debt	1,007	(484)	523	422	(68)	354
Trust preferred securities	3,026	—	3,026	—	—	—
Increase (decrease) in interest expense	2,977	(7,400)	(4,423)	(4,719)	(14,746)	(19,465)
Decrease in net interest income	\$ (1,129)	\$ (5,042)	\$ (6,171)	\$ (9,894)	\$ (60,486)	\$ (70,380)

2003 Compared to 2002

Net Interest Income

Net interest income on a fully taxable-equivalent basis totaled \$192.2 million in 2003, a decrease of \$6.2 million, or 3.1%, from \$198.4 million in 2002. The decrease in net interest income was due to a \$10.6 million, or 4.9%, decline in interest income, offset by a \$4.4 million, or 24.7%, decrease in interest expense over the comparable prior-year period. Interest expense in 2003 included \$3.0 million relating to the SFAS No. 150 and Fin No. 46-mandated classification of trust preferred securities distribution expense as interest expense, for the latter half of 2003. For periods prior to June 30, 2003, trust preferred securities distribution expense was classified as noninterest expense, and therefore did not impact the net interest margin.

Impact of Declining Market Interest Rates on Interest-Earning Assets

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

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

Net Increase in Interest-Earning Assets

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

Average loans increased \$37.7 million, or 2.1%, in 2003, as compared to 2002, resulting in a \$3.4 million favorable volume variance. In 2003, we grew our average loan portfolio to a record level by continuing to focus on attracting middle-market and mature corporate technology and life sciences clients, which we believe are under-served by our competitors. We experienced loan growth across most of the industry sectors we serve. Additionally, our new loans continue to be subject to our existing underwriting practices. We expect further growth in our loan balances to bolster our net interest margin since it will shift liquid interest-earning assets from our investment portfolio, which currently yields 3.6%, to loans with yields ranging from approximately 4.3% to 8.9%. We expect modest loan growth to continue throughout 2004.

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

Average federal funds sold and securities purchased under agreement to resell increased \$232.0 million, or 151.4% in 2003, as compared to the prior year, resulting in a \$3.1 million favorable volume variance. This increase was primarily due to a change in the investment portfolio mix. We expect to continue the trend of managing federal funds sold and overnight repurchase agreements at appropriate levels.

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

Decrease in Interest Expense

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

The unfavorable volume variance was due in large part to the SFAS No. 150-mandated classification of trust preferred securities distribution expense of \$3.0 million as interest expense, for the latter half of 2003. Trust preferred securities distribution expense was previously classified as noninterest expense. Of the \$3.0 million in trust preferred securities distribution expense, approximately \$1.3 million related to the

recognition of deferred issuance costs in the fourth quarter of 2003, due to the redemption of our 8.25% Trust Preferred Securities. In the fourth quarter of 2003, we entered into an interest rate swap agreement to swap our 7.0% fixed payment on Junior Subordinated Debentures for a variable rate based on the London Inter-Bank Offer rate (LIBOR) plus a spread. We expect this swap to have a positive impact on our cost of funds in 2004.

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

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

2002 Compared to 2001

Net interest income on a fully taxable-equivalent basis totaled \$198.4 million in 2002, a decrease of \$70.4 million, or 26.2%, from \$268.8 million in 2001. The decrease in net interest income was due to an \$89.8 million, or 29.3%, decline in interest income, offset by a \$19.5 million, or 52.1%, decrease in interest expense over the comparable prior-year period.

In 2002, we implemented numerous measures to minimize the impact of the decline in market interest rates. These measures included diversifying the product mix in the investment portfolio to higher-yielding, high-quality assets, reducing rates paid on interest-bearing deposits, and embedding minimum interest rate “floors” into client loan agreements. We also increased the average expected life of investments in our portfolio by replacing some assets from lower-yielding short-term securities to higher-yielding longer-term securities, thereby taking advantage of the steeper interest rate curve. Overall, the expected average life of portfolio investments increased to approximately 1.5 years, as compared to less than 1 year in 2001.

Interest Income

The \$89.8 million decrease in interest income for 2002, as compared to 2001, was the result of a \$14.6 million unfavorable volume variance, combined with a \$75.2 million unfavorable rate variance. The \$14.6 million unfavorable volume variance resulted from a \$514.8 million, or 12.9%, decrease in average interest-earning assets over the comparable prior-year period. The decrease in average interest-earning assets was primarily concentrated in highly-liquid federal funds sold, and securities purchased under agreement to resell, which decreased \$356.8 million, and investment securities, which decreased \$263.3 million. These decreases were partially offset by \$105.3 million increase in loans.

Average loans increased \$105.3 million, or 6.4%, in 2002, as compared to 2001, resulting in an \$11.4 million favorable volume variance. At December 31, 2002, we grew our loan portfolio to a record level by refocusing on attracting middle-market and mature corporate technology and life sciences clients, which we believe are under-served by our competitors. In 2002, we experienced loan growth across most of the industry sectors we serve.

Average investment securities for 2002 decreased \$263.3 million, or 14.5%, as compared to 2001, resulting in a \$14.1 million unfavorable volume variance. The decrease in average investment securities was primarily centered in U.S. agency securities, which decreased \$291.0 million. This decrease resulted from declines in our average deposit balances and our common stock repurchase programs. Deposit balances declined in 2001 as our clients continued to experience reduced liquidity due to the slowdown in the capital markets and lower levels of venture capital fund investment. However, quarterly average deposit balances stabilized during 2002.

Average federal funds sold and securities purchased under agreement to resell in 2002 decreased \$356.8 million, or 70.0%, as compared to the prior year, resulting in an \$11.9 million unfavorable volume variance. This decline was primarily due to a change in the investment portfolio mix, as funds were invested in longer-term, high quality securities while still maintaining high levels of liquidity.

Unfavorable rate variances associated with each component of interest-earning assets caused a \$75.2 million decline in our interest income for 2002 as compared to 2001. Short-term market interest rates decreased rapidly throughout 2001, and we experienced additional, although less severe, market interest rate decreases in 2002. Thus, we earned lower yields in 2002 on federal funds sold and securities purchased under agreements to resell, as well as our investment securities, a significant portion of which were short-term in nature. The decrease in short-term market interest rates resulted in a combined \$35.2 million unfavorable rate variance in 2002, as compared to 2001. In 2002, we incurred a \$40.0 million unfavorable rate variance associated with our loan portfolio. The average yield on loans in 2002 decreased 230 basis points to 8.9% from 11.2% in the prior year. This was due to two factors. First, the lower average prime rate reduced yields on floating rate loans, which represent approximately 79.0% of our total loan portfolio. The weighted-average prime rate declined 224 basis points from 6.9% in 2001 to 4.7% in 2002. Second, our fixed-rate loans are priced by reference to U.S. Treasury securities. During 2002, the treasury yield curve moved lower and flattened. Thus, we earned lower yields on new, renewed, and refinanced fixed-rate loans.

The yield on average interest-earning assets decreased 150 basis points in 2002 from the prior year. This decrease primarily resulted from a decline in short-term market interest rates; thus, we earned lower yields on each component of our interest-earning assets.

Interest Expense

Total interest expense in 2002 decreased \$19.5 million from 2001. This decrease was due to a favorable rate variance of \$14.7 million, combined with a favorable volume variance of \$4.7 million. The favorable rate variance largely resulted from a reduction between 2001 and 2002 in the average rate paid on our time-deposit product from 3.1% to 1.2%.

The average cost of funds paid on average interest-bearing liabilities in 2002 was 1.1% down from 2.0% in 2001. This decrease in the average cost of funds was largely due to a decrease of 190 basis points in the average rate paid on our time-deposit product.

Provision for 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. For a more detailed discussion of credit quality and the allowance for loan losses, see “Item 7. Critical Accounting Policies” and “Item 7. Financial Condition—Credit Quality and the Allowance for Loan Losses.”

Our provision for loan losses totaled \$(6.2) million in 2003, as compared to \$3.9 million in 2002, and \$16.7 million in 2001. We obtained net recoveries of \$0.2 million in 2003, as compared to net charge-offs of \$5.8 million in 2002, and \$18.1 million in 2001. The decrease in provision for loan losses for 2003, as compared to 2002, primarily resulted from \$20.4 million in recoveries in 2003 and improved credit quality. A large portion of the loan loss recoveries in 2003 related to the settlement of remaining film loan litigation. We expect lower gross loan loss recoveries in 2004. The decrease in provision for loan losses for 2002, as compared to 2001, resulted from \$22.2 million in recoveries in 2002, relating in large part to loan loss recoveries from film loan litigation settlements.

Noninterest Income

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

	Years Ended December 31,			% Change	
	2003	2002	2001	2003 / 2002	2002 / 2001
	(Dollars in thousands)				
Client investment fees	\$ 23,991	\$ 30,671	\$ 41,598	(21.8)%	(26.3)%
Deposit service charges	13,202	9,072	6,196	45.5	46.4
Corporate finance fees	13,149	12,110	2,911	8.6	316.0
Letter of credit and foreign exchange income	12,856	15,225	12,655	(15.6)	20.3
Income from client warrants	7,528	1,661	8,500	353.2	(80.5)
Credit card fees	3,431	955	625	259.3	52.8
Investment losses	(8,402)	(9,825)	(12,373)	(14.5)	(20.6)
Other	9,305	7,989	10,721	16.5	(25.5)
Total noninterest income	<u>\$ 75,060</u>	<u>\$ 67,858</u>	<u>\$ 70,833</u>	<u>10.6%</u>	<u>(4.2)%</u>

Client investment fees decreased in 2003 from 2002 and 2001. We offer private label investment, sweep products, and asset management services to clients on which we earn fees on clients' average balances, ranging from 10 to 100 basis points in 2003, 12.5 to 107 basis points in 2002, and 11 to 107 basis points in 2001. At December 31, 2003, \$9.3 billion in client funds were invested in these products, compared to \$8.5 billion in 2002, and \$9.3 billion in 2001. Of these funds, \$6.4 billion, \$8.5 billion, and \$6.4 billion were invested in mutual fund products as of December 31, 2003, 2002, and 2001, respectively. Total invested client funds have increased between 2002 and 2003, however, the decrease in client investment fees from year to year was due to a shift in client investment mix. The sustained low interest rate environment has caused lower priced investment products to become a more attractive investment strategy for many of our clients.

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

Deposit service charges have increased steadily from year to year, primarily due to increased client usage of our expanded and enhanced suite of fee-based cash management services. Additionally, clients compensate us for depository services, either through earnings credits computed on their demand deposit balances, or through explicit payments recognized by us as deposit service charges income. Earnings credits are calculated using client average daily deposit balances, less a reserve requirement and a discounted U.S. Treasury bill interest rate. Clients received lower earnings credits in 2003, as compared to the prior years due to lower market interest rates. As such, our clients had fewer credits to offset deposit service charges. Thus, we earned higher recognizable deposit service charges year over year.

Corporate finance fees increased slightly in 2003 from 2002. Corporate finance fees totaled \$12.1 million in 2002, a substantial increase from 2001. In 2002, Alliant Partners, our investment-banking subsidiary, generated the entire balance of \$12.1 million. SVB Securities, Inc., generated \$1.1 million in corporate finance fees in 2001. The increase in corporate finance fees from 2001 to 2002 was primarily due to the acquisition of Alliant on September 28, 2001, which increased our mergers and acquisitions advisory activity. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 2 to the Consolidated Financial Statements—Business Combinations." Alliant's revenues are typically a function of the valuation of their clients' mergers and acquisitions transactions. In recent years, economic events have depressed valuations of high technology and life sciences corporations. Thus, Alliant has not achieved its merger and acquisition revenue goals. Consequently, we have incurred aggregate impairment of goodwill charges of \$63.0 million in 2003, see the discussion under the heading "Noninterest Expense" contained later in this "Management Discussion and Analysis of Financial Condition and Results of Operations" section.

Letter of credit fees, foreign exchange fees, and other trade finance income decreased between 2002 and 2003, as a result of increased competition and increased availability of these product types from other financial institutions. The increase in income between 2001 and 2002 reflects an increase in the number of products offered by us and an increase in the volume of client foreign exchange transactions during 2002 as compared to 2001.

Due to an increase in client initial public offering and mergers and acquisition activities, the income from client warrants increased between 2002 and 2003. Conversely, we experienced a decrease in warrant income between 2001 and 2002, due to a slowdown of those activities in 2002 from 2001. The timing and amount of income from client warrants typically depends upon factors beyond our control, including the general condition of the public equity markets as well as the merger and acquisition environment. We have historically obtained rights to acquire stock, in the form of warrants, in certain clients, primarily as part of negotiated credit facilities. The receipt of warrants does not change the loan covenants or other collateral control techniques we employ to mitigate the risk of a loan becoming nonperforming. The collateral requirements on loans with warrants are similar to lending arrangements where warrants are not obtained. Due to the uncertainty of factors beyond our control, we cannot predict the timing and amount of income from client warrants with any degree of accuracy, and this income is likely to vary materially from period to period.

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

We experienced improvements in investment securities losses from year to year. The 2003 and 2002 losses primarily related to the write-down of certain venture capital fund and direct equity investments. Excluding the impact of minority interest, the net write-downs of our equity securities totaled approximately \$2.8 million in 2003, \$4.1 million in 2002, and \$6.6 million in 2001. In 2004, we expect continued volatility in equity securities losses, with general improvement in a lower range in the near term.

Other noninterest income largely consisted of service-based fee income associated with our deposit and loan services, as well as fund management fees. It totaled \$9.3 million in 2003, \$8.0 million in 2002, and \$10.7 million in 2001. The decrease in 2002, as compared to 2001, was primarily due to the elimination of supply chain service operations in late 2001.

Noninterest Expense

Noninterest expense in 2003 totaled \$262.7 million, compared to \$186.4 million in 2002, and \$183.5 million in 2001.

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

	Years Ended December 31,			% Change	
	2003	2002	2001	2003 / 2002	2002 / 2001
	(Dollars in thousands)				
Compensation and benefits	\$ 122,093	\$ 105,168	\$ 89,060	16.1%	18.1%
Impairment of goodwill	63,000	—	—	—	—
Net occupancy	17,638	20,391	16,181	(13.5)	26.0
Professional services	13,677	18,385	24,543	(25.6)	(25.1)
Furniture and equipment	11,289	9,562	13,916	18.1	(31.3)
Business development and travel	8,692	8,426	10,159	3.2	(17.1)
Correspondent bank fees	4,343	2,835	479	53.2	491.9
Data processing services	4,288	4,360	3,785	(1.7)	15.2
Telephone	3,187	3,123	4,317	2.0	(27.7)
Tax credit funds amortization	2,704	2,963	2,756	(8.7)	7.5
Postage and supplies	2,601	3,190	3,995	(18.5)	(20.2)
Trust preferred securities distributions	594	2,230	3,300	(73.4)	(32.4)
Other	8,581	5,741	10,997	49.5	(47.8)
Total noninterest expense	<u>\$ 262,687</u>	<u>\$ 186,374</u>	<u>\$ 183,488</u>	<u>40.9%</u>	<u>1.6%</u>

Compensation and benefits expenses increased in 2003 from 2002, primarily due to increased incentive compensation expense. We believe this was necessary to retain our professional talent in an improving economic environment. Average full-time equivalent (FTE) personnel decreased from 1,000 in 2002 to 994 in 2003, and was 970 in 2001. Compensation and benefits expenses increased by \$16.1 million between 2001 and 2002. We experienced an increase in compensation and benefits during 2002 for the following reasons. First, we completed a strategic realignment of some of our business activities, which resulted in severance expense of \$1.1 million in 2002. Second, we incurred \$6.1 million in incentive compensation expense related to our target earnings levels being achieved in 2002, as compared to \$0 in 2001. The increase in FTE personnel from 2001 to 2002 was primarily due to conversion of certain consultants to permanent employees status, the acquisition of Alliant Partners and Woodside Asset Management, Inc., and our efforts to build an infrastructure sufficient to support our business activities and regulatory requirements. We are continuing our specific measures to control the number of FTE personnel during 2004.

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

Occupancy expense decreased by \$2.8 million between 2002 and 2003. In 2002, we exited leased premises in Santa Clara, California, approximating 18,000 square feet. The lease on the building expires in August 2005. Our management determined that the premises would have no future economic value to our operations, except for any potential future sub-lease arrangement. Therefore, during 2002, we incurred charge-offs of approximately \$2.5 million related to the exit of these premises. We incurred no such charge-offs in 2003 or 2001.

Professional services expenses, which consist of costs associated with corporate legal services, litigation settlements, accounting and auditing services, consulting, and our board of directors, has decreased year to year. In 2003, we settled the remaining aspects of certain film loan litigation and were able to recover related legal expenses. Additionally, over the past few years, we have implemented stringent measures to control the use of external consulting services. In 2002 as compared to 2001, the decrease in professional services expenses was primarily related to a reduction in the number of business initiatives supported by consultants.

Furniture and equipment expenses increased in 2003 compared to 2002, mainly due to an increase in information technology maintenance costs related to new business initiatives. The decrease in furniture and equipment expenses in 2002 as compared to 2001, was primarily due to a \$1.2 million charge-off of software related to an abandoned project in the third quarter of 2001.

Correspondent bank fees increased from year to year. Many of our correspondent banks provide earnings credits to offset bank fees we incur when using their services. Earnings credits are generally calculated using average daily deposit balances, less a reserve requirement and a short-term market interest rate. We received lower earnings credits in 2003 as compared to 2002 and 2001, due to our maintaining lower average balances with our correspondent banks and lower market interest rates. As such, we had fewer earnings credits to offset bank fees charges incurred by us. Thus, we incurred higher recognizable bank fees in 2003 as compared to 2002 and 2001. Management made the decision to lower the average balances with correspondent banks because we were able to earn more on our funds by investing them than we would have saved by leaving these funds with the correspondent banks.

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

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

Other noninterest expenses totaled \$8.6 million in 2003, \$5.7 million in 2002, and \$11.0 million in 2001. Other noninterest expense is comprised of miscellaneous loan and deposit related client service expenses, as well as insurance expense and other assessments.

Minority Interest in Net Losses of Consolidated Affiliates

The minority interest limited partner’s share of losses were \$7.7 million, \$7.8 million, and \$7.5 million in 2003, 2002 and 2001, respectively. The minority interest limited partner losses were primarily due to management fees and write-downs of minority interest-owned investments associated with SVB Strategic Investors Fund, L.P. and Silicon Valley BancVentures, L.P. of \$5.5 million, \$5.7 million, and \$5.8 million in 2003, 2002 and 2001, respectively.

Income Taxes

Our effective income tax rate was 21.0% in 2003, compared to 33.4% in 2002 and 37.5% in 2001. The decrease in our effective tax rate from 2002 to 2003 was primarily due to a higher impact of our tax-advantaged investments on our lower overall earnings, partially offset by the exclusion of REIT tax benefits.

In the third quarter of 2002, we implemented a real estate investment trust (REIT) to serve as a future-funding vehicle. In 2002 we obtained \$0.8 million in tax benefits from the REIT structure. In 2003, we did not take REIT tax benefits of \$1.7 million in response to a California Franchise Tax Board (FTB) announcement on December 31, 2003, which related to new tax shelter regulations. We believe we are appropriately reserved for prior year benefits that were previously recognized. We will not reflect REIT tax benefits in our future financial statements until this matter has been resolved with the FTB. Based on information provided by our financial advisors, we believe that our position with regard to the REIT has merit and we plan to pursue our tax claims and defend our use of this entity. For further information on our effective tax rate, see “Item 8. Consolidated Financial Statements and Supplementary Data—Note 16 to the Consolidated Financial Statements—Income Taxes.”

The change in our effective income tax rate from 2001 to 2002 was primarily due to an increase in items giving rise to permanent tax benefits. In particular, on September 11, 2002, California enacted a law requiring large banks (those with average assets in excess of \$500 million) to conform to federal law with respect to accounting for bad debts. Prior to the law change, all banks, regardless of size, were eligible to use the reserve method of accounting for bad debts which enabled them to take deductions for anticipated bad debt losses prior to the losses being incurred for California tax purposes. With the change, large banks may now only deduct actual charge-offs net of recoveries in determining their California taxable income. Banks that are required to conform to the new law must include in taxable income 50 percent of their existing bad debt reserves as of the end of the prior tax year. As a concession for requiring large banks to comply with the new law, recapture of the remaining 50 percent of the reserve is waived thereby creating a permanent tax benefit. Our one-time tax benefit resulting from the law change was \$0.8 million and was reflected in our income tax expense for 2002. This change, while reducing income tax expense, also results in accelerated tax payments.

Operating Segment Results

Commercial banking's pre-tax income for the year ending 2003 was \$66.4 million compared to \$70.8 million for the same period in 2002. This decrease was caused by declines in net interest income and noninterest income, partially offset by a decline in net charge-offs. The commercial bank benefited from net recoveries of loan losses in 2003. Our segment reporting includes net charge-offs in lieu of provision expense to determine segment financial performance.

For the years ended December 31, 2003 and 2002, merchant banking's pre-tax income was \$6.1 million and \$1.6 million, respectively. In 2003, noninterest income increased by \$7.0 million, primarily related to warrant income of \$7.5 million compared to \$1.7 million for the same period in 2002.

Investment banking's pre-tax (loss) income for the years ended December 31, 2003 and 2002, was \$(62.6) million and \$2.4 million, respectively. The 2003 pre-tax net loss was primarily due to aggregate impairment of goodwill charges of \$63.0 million, for further information, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 9 to the Consolidated Financial Statements—Goodwill."

All other segments include private banking and other business services. Other segments also include necessary adjustments to reconcile segment data to the consolidated financial statements. Our segment reporting is under continuous refinement. As a result, the other segments will be subject to large amounts of variability from period to period as our management reporting and cost allocation process evolves. Other segments' pre-tax income remained consistent at \$5.3 million for the years ended December 31, 2003 and 2002. For operating segment results, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 14 to the Consolidated Financial Statements—Segment Reporting."

Financial Condition

Total assets at December 31, 2003 were \$4.5 billion, an increase of \$282.2 million from December 31, 2002. Federal funds sold and securities purchased under agreement to resell increased by \$339.8 million, and investment securities increased by \$39.7 million while loans, net of unearned income, decreased by \$96.9 million. The increase in total assets was primarily funded by a \$230.7 increase in client deposits. Between December 31, 2002 and December 31, 2003, long-term debt increased by \$186.9 million primarily due to the issuance of \$150.0 million of zero coupon convertible debt in May 2003. The net proceeds from the issuance of the convertible debt were largely used to repurchase our common stock, which resulted in a decrease of stockholders' equity. The remaining increase in long-term debt was the result of a change in accounting rules, which mandated the classification of Trust Preferred Securities as long-term debt, on a prospective basis.

Federal Funds Sold and Securities Purchased under Agreement to Resell

Federal funds sold and securities purchased under agreement to resell totaled a combined \$542.5 million at December 31, 2003, an increase of \$339.8 million, or 167.7% as compared to \$202.7 million outstanding at the prior year-end. We actively manage overnight funds between federal funds sold and securities purchased under agreement to resell and money market mutual funds, based on current interest rates. The increase in federal funds sold and securities purchased under agreement to resell was primarily funded by an increase in client deposits of \$230.7 million and a slight shift of funds from short-term investments, due to higher yields.

Investment Securities

For a description of the accounting policies related to Investment Securities, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" and "Item 8. Consolidated Financial Statements and Supplementary Data—Note 1 to the Consolidated Financial Statements—Significant Accounting Policies—Investment Securities."

The following table details the composition of investment securities, which were classified as available-for-sale and reported at fair value, with the exception of non-marketable securities that include Federal Reserve Bank and Federal Home Loan Bank stock, tax credit funds, venture capital fund

investments, and other private equity investments, which were reported on a cost basis less any identified impairment or reported at fair value using investment company accounting rules at December 31, 2003, 2002, and 2001.

	December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Available-for-sale securities:			
U.S. Treasury securities	\$ 31,153	\$ 20,578	\$ 85,148
U.S. agencies and corporations:			
Collateralized mortgage obligations	611,385	420,161	154,314
Mortgage-backed securities	296,494	158,936	142,493
Discount notes and bonds	285,429	197,545	425,843
Asset-backed securities	37,695	38,508	—
Obligations of states and political subdivisions	150,871	210,517	421,634
Commercial paper and other debt securities	26,991	11,148	34,800
Money market mutual funds	23,079	378,933	494,230
Warrant securities	7,676	839	2,406
Venture capital fund investments	8	11	69
Other equity investments(1)	8,602	7,055	5
Total available-for-sale securities	<u>1,479,383</u>	<u>1,444,231</u>	<u>1,760,942</u>
Non-marketable securities:			
Venture capital fund investments(2)	\$ 55,345	\$ 46,822	\$ 38,647
Tax credit funds	16,551	18,255	12,719
Other private equity investments(3)	13,679	16,820	13,706
Federal Reserve Bank stock	7,467	7,394	7,148
Federal Home Loan Bank stock	3,009	2,172	—
Total non-marketable securities	<u>96,051</u>	<u>91,463</u>	<u>72,220</u>
Total investment securities	<u>\$ 1,575,434</u>	<u>\$ 1,535,694</u>	<u>\$ 1,833,162</u>

- (1) Available-for-sale other equity investments included \$8.6 and \$7.1 million related to investments owned by two consolidated limited partnerships, Taurus Growth Partners, L.P. and Libra Partners, L.P. as of December 31, 2003 and December 31, 2002, respectively.
- (2) Non-marketable venture capital fund investments included \$30.1 million, \$22.1million, and \$16.5 million related to SVB Strategic Investors Fund, L.P., as of December 31, 2003, 2002, and 2001, respectively.
- (3) Non-marketable other private equity investments included \$10.1 million, \$10.0 million, and \$5.1 million related to Silicon Valley BancVentures, L.P., as of December 31, 2003, 2002, and 2001, respectively.

Available-for-sale investment securities totaled \$1.5 billion at December 31, 2003, an increase of \$35.2 million, or 2.4%, from the December 31, 2002 balance of \$1.4 billion. The increase in available-for-sale securities resulted from growth in average client deposits in excess of loan growth. The change in the composition of investments was the result of our continuing efforts to diversify the product mix in our investment portfolio to higher yielding, high quality assets. Short-term money market mutual funds were reallocated to higher yielding mortgage-backed securities and collateralized mortgage obligations. We continue to add some duration to the portfolio due to active interest rate risk management, and have increased the average life to 1.7 years in 2003 from 1.5 years in 2002. Other notable changes include the reduction of short-term municipal bonds and an increase in agency discount notes and debentures.

The increase in nonmarketable securities relates to an increase in venture capital fund investments of \$8.5 million between 2002 and 2003, primarily due to additional investments made by our managed fund, SVB Strategic Investors, L.P. during the year.

Investment securities totaled \$1.5 billion at December 31, 2002, a decrease of \$297.5 million, or 16.2%, from the December 31, 2001 balance of \$1.8 billion. This decrease resulted from a reallocation of funds to loans and our common stock repurchase programs during 2002. The decrease in investment securities was primarily in U.S. Treasury and agency securities, short-term obligations of states and political subdivisions, and money market mutual funds. This was partially offset by an increase in

collateralized mortgage obligations. This shift represents a change in investment portfolio management as we become more active in measuring and managing our interest rate risk. We have increased the expected average life of investments in our portfolio to approximately 1.5 years in 2002 from under 1 year in 2001 by adding higher yielding, highly liquid agency mortgage-backed securities and other triple A rated securities. The increase in venture capital fund investments of \$8.1 million between 2001 and 2002 was primarily due to additional investments made by our managed fund, SVB Strategic Investors, L.P. during the year. The change in the composition of investments was the result of interest rate conditions.

Based on December 31, 2003 market valuations, we had potential unrealized pre-tax warrant gains totaling \$7.5 million. We are restricted from exercising many of these warrants. As of December 31, 2003, we held 1,842 warrants in 1,329 companies, had made investments in 254 venture capital funds, and had direct equity investments in 19 companies, many of which are private. We also had investments in 20 venture capital funds through our fund of funds, SVB Strategic Investors, L.P. and had direct equity investments in 25 companies through our venture capital fund, Silicon Valley BancVentures, L.P. We are typically contractually precluded from taking steps to secure the current unrealized gains associated with many of these equity instruments. Hence, the amount of income we realize from these equity instruments in future periods may vary materially from the current unrealized amount due to fluctuations in the market prices of the underlying common stock of these companies.

At December 31, 2003, we held no investment securities that were issued by a single party, excluding securities issued by the U.S. Government or by U.S. government agencies and corporations, which exceeded 10.0% of our stockholders' equity.

The following table provides the remaining contractual principal maturities and fully taxable-equivalent yields on investment securities as of December 31, 2003, except for auction rate securities that use the next reset date as the maturity date. The weighted-average yield is computed using the amortized cost of available-for-sale securities, which are reported at fair value. Expected remaining maturities of callable U.S. agency securities, mortgage-backed securities, and collateralized mortgage obligations may differ significantly from their contractual maturities because borrowers may have the right to prepay obligations with or without penalties. This is most apparent in mortgage backed securities and collateralized mortgage obligations as contractual maturities are typically 15 to 30 years whereby expected average lives of these securities are between two and five years. Warrant securities, venture capital fund investments, other private equity investments, Federal Reserve Bank stock, Federal Home Loan Bank stock, and tax credit funds were included in the table below as maturing after 10 years.

	December 31, 2003									
	Total		One Year or Less		After One Year to Five Years		After Five Years to Ten Years		After Ten Years	
	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield
(Dollars in thousands)										
U.S. Treasury securities	\$ 31,153	1.81 %	—	—	\$ 30,913	1.81 %	\$ 240	1.81 %	—	—
U.S. agencies and corporations:										
Collateralized mortgage obligations	611,385	4.24	—	—	3,723	1.13	854	3.84	\$ 606,808	4.28 %
Mortgage-backed securities	296,494	4.51			1,105	3.75	27,343	3.35	268,046	4.63
Discount notes and bonds	285,429	3.03	\$ 79,412	2.45 %	170,851	3.05	35,166	4.21	—	—
Asset-backed securities	37,695	2.85	—	—	22,692	2.77	15,003	2.96	—	—
Obligations of states and political subdivisions	150,871	6.26	14,995	6.40	96,290	6.66	26,586	7.95	13,000	1.82
Commercial paper and other debt securities	26,991	1.08	26,991	1.08	—	—	—	—	—	—
Money market mutual funds	23,079	1.03	23,079	1.03	—	—	—	—	—	—
Federal Reserve Bank Stock, Federal Home Loan Bank stock, and tax credit funds	27,027	—	—	—	—	—	—	—	27,027	—
Warrant securities	7,676	—	—	—	—	—	—	—	7,676	—
Venture capital fund investments	55,353	—	—	—	—	—	—	—	55,353	—
Other private equity investments	22,281	—	—	—	—	—	—	—	22,281	—
Total	<u>\$ 1,575,434</u>	<u>4.05 %</u>	<u>\$ 144,477</u>	<u>2.38 %</u>	<u>\$ 325,574</u>	<u>3.96 %</u>	<u>\$ 105,192</u>	<u>4.74 %</u>	<u>\$ 1,000,191</u>	<u>4.31 %</u>

Callable U.S. agency securities, mortgage-backed securities, and collateralized mortgage obligations pose risks not associated with fixed maturity bonds, primarily related to the ability of the borrower to call or prepay the debt with or without penalty. This risk, known as prepayment risk, may result in these securities having longer or shorter average lives than that anticipated at the time of purchase. As interest rates decline, prepayments generally tend to increase, causing the average expected remaining maturity to shorten. Conversely, as interest rates rise, prepayments tend to decrease causing the average expected remaining maturity to extend.

Loans

The following table details the composition of the loan portfolio, net of unearned income, for each of the past five years:

	December 31,				
	2003	2002	2001	2000	1999
(Dollars in thousands)					
Commercial	\$ 1,703,986	\$ 1,756,182	\$ 1,536,845	\$ 1,531,468	\$ 1,414,728
Real estate construction	62,322	43,178	52,088	62,253	76,209
Real estate term	32,115	56,190	50,935	38,380	67,738
Consumer and other	190,806	230,530	127,170	84,448	64,330
Total loans	<u>\$ 1,989,229</u>	<u>\$ 2,086,080</u>	<u>\$ 1,767,038</u>	<u>\$ 1,716,549</u>	<u>\$ 1,623,005</u>

The following table sets forth the remaining contractual maturity distribution of our gross loans at December 31, 2003 for fixed and variable rate loans:

December 31, 2003			
One Year or Less	After One Year and Through Five Years	After Five Years	Total

(Dollars in thousands)

Fixed rate loans:				
Commercial	\$ 57,569	\$ 250,002	\$ 43,206	\$ 350,777
Real estate construction	—	—	—	—
Real estate term	—	21,834	6,064	27,898
Consumer and other	—	1,528	—	1,528
Total fixed-rate loans	<u>\$ 57,569</u>	<u>\$ 273,364</u>	<u>\$ 49,270</u>	<u>\$ 380,203</u>
Variable-rate loans:				
Commercial	\$ 805,731	\$ 508,395	\$ 50,823	\$ 1,364,949
Real estate construction	4,830	7,563	—	12,393
Real estate term	5,160	38,849	10,609	54,618
Consumer and other	80,716	39,337	69,286	189,339
Total variable-rate loans	<u>\$ 896,437</u>	<u>\$ 594,144</u>	<u>\$ 130,718</u>	<u>\$ 1,621,299</u>

Upon maturity, loans satisfying our credit quality standards may be eligible for renewal. Such renewals are subject to the normal underwriting and credit administration practices associated with new loans. We do not grant loans with unconditional extension terms.

A substantial percentage of our loans are commercial in nature, and such loans are generally made to emerging growth or middle-market companies in a variety of industries. As of December 31, 2003, our software tools and applications industry subsector represented 13.8% of total gross loans, our premium wineries industry sector represented 15.5% of total gross loans, and our venture capital industry subsector represented 13.7% of total gross loans. No other industry sector represented more than 10.0% of total gross loans at December 31, 2003.

Loan Administration

Authority over our loan policies resides with our board of directors. This authority is managed through the approval and periodic review of our loan policies. The board of directors delegates authority to the directors' loan committee to supervise our loan underwriting, approval, and monitoring activities. The directors' loan committee consists of outside board of director members and our chief executive officer, who serves as an alternate.

Subject to the oversight of the directors' loan committee, lending authority is delegated to the chief credit officer and our internal loan committee, which consists of the chief executive officer, chief credit officer, chief banking officer, chief strategy officer, and other senior members of our lending management. Requests for new and existing credits that meet certain size and underwriting criteria may be approved outside of our internal loan committee by designated senior lenders or jointly with a senior credit officer.

Credit Quality and the Allowance for Loan Losses

For a description of the accounting policies related to the allowance for loan losses, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” and “Item 8. Consolidated Financial Statements and Supplementary Data—Note 1 to the Consolidated Financial Statements—Significant Accounting Policies—Loans—Allowance for Loan Losses.”

The following table presents an analysis of the allowance for loan losses for the past five years:

	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Balance beginning of year	\$ 70,500	\$ 72,375	\$ 73,800	\$ 71,800	\$ 46,000
Charge-offs:					
Commercial	(18,888)	(27,408)	(37,671)	(63,177)	(34,312)
Real estate	(1,252)	—	(690)	—	—
Consumer and other	—	(524)	(424)	(203)	(196)
Total charge-offs	(20,140)	(27,932)	(38,785)	(63,380)	(34,508)
Recoveries:					
Commercial	19,965	22,175	20,408	10,507	7,849
Real estate	331	—	209	47	34
Consumer and other	67	—	19	224	18
Total recoveries	20,363	22,175	20,636	10,778	7,901
Net recoveries (charge-offs)	223	(5,757)	(18,149)	(52,602)	(26,607)
Provision for loan losses	(6,223)	3,882	16,724	54,602	52,407
Balance end of year	\$ 64,500	\$ 70,500	\$ 72,375	\$ 73,800	\$ 71,800
Net recoveries (charge-offs) to average total loans	0.0%	(0.3)%	(1.1)%	(3.3)%	(1.7)%

The following table displays the allocation of the allowance for loan losses among specific classes of loans.

	December 31,									
	2003		2002		2001		2000		1999	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
	(Dollars in thousands)									
Commercial	\$ 56,085	87.1 %	\$ 58,702	83.8 %	\$ 65,972	92.3 %	\$ 54,300	92.7 %	\$ 49,985	95.5 %
Real estate construction	593	0.9	1,016	1.4	1,062	1.5	1,141	1.9	792	1.5
Real estate term	2,311	3.6	6,879	9.8	2,528	3.5	806	1.4	795	1.5
Consumer and other	5,371	8.4	3,474	5.0	1,959	2.7	2,350	4.0	757	1.5
Unallocated	140	N/A	429	N/A	854	N/A	15,203	N/A	19,471	N/A
Total	\$ 64,500	100.0 %	\$ 70,500	100.0 %	\$ 72,375	100.0 %	\$ 73,800	100.0 %	\$ 71,800	100.0 %

The allowance for loan losses is allocated based on a historical loan loss formula allocation for similarly risk-rated loans, or for specific risk issues, which suggest a probable loss factor exceeding the historical loan loss formula allocation for a specific loan, or for individual impaired loans as determined by SFAS No. 114.

The allowance for loan losses totaled \$64.5 million at December 31, 2003, a decrease of \$6.0 million, or 8.5%, as compared to \$70.5 million at December 31, 2002. Our improved credit quality necessitated a decrease in the allowance for loan losses. This decrease was due to net recoveries of \$0.2 million and a provision for loan losses of \$(6.2) million. Our loan recoveries in 2003 included settlement of the remaining film loan litigation. The 2003 net recovery amount was composed of \$20.1 million in gross charge-offs and \$20.4 million in gross recoveries.

The allowance for loan losses totaled \$70.5 million at December 31, 2002, a decrease of \$1.9 million, or 2.6%, as compared to \$72.4 million at December 31, 2001. This decrease was due to net charge-offs of \$5.8 million and a provision for loan losses of \$3.9 million. Our loan recoveries in 2002 primarily related

to film loans, which were charged-off in 2000. The 2002 net charge-off amount was composed of \$27.9 million in gross charge-offs and \$22.2 million in gross recoveries.

The 2001 gross charge-offs included one entertainment credit totaling \$3.8 million. Of the total 2001 gross charge-offs, \$4.9 million were classified as nonperforming loans at the end of 2000. The 2001 gross recoveries included three credits, one from our technology industry sector and two from our discontinued entertainment and healthcare niches, totaling \$12.0 million.

The unallocated component of the allowance for loan losses at December 31, 2001 decreased \$14.3 million from 2000. The decrease in the unallocated allowance between 2000 and 2001, principally reflects our management's decision to provide an additional allocation of the allowance for loan losses for our early-stage product loan portfolio. No such specific allocation existed at December 31, 2000. Early-stage product loans represent approximately 20% of our total loan portfolio and are defined by us as loans made to nonpublic, emerging growth, technology and life science companies that have not yet attained profitability. We determined that an additional allocation of the allowance for loan losses was necessary as our early-stage product loan portfolio experienced higher than normal annualized gross loan losses that ranged from approximately 7% to 10% during each of the last three fiscal quarters of 2001. Therefore, our management established an additional allocation to specifically address potential loan losses from this portfolio.

The 2000 gross charge-offs included three entertainment credits totaling \$23.1 million and two commercial credits totaling \$12 million in our healthcare services industry sector. Of the total 2000 gross charge-offs, \$13.4 million were classified as nonperforming loans at the end of 1999.

Nonperforming Assets

Nonperforming assets consist of loans that are past due 90 days or more that are still accruing interest, loans on nonaccrual status, other real estate owned (OREO), and other foreclosed assets. The table below sets forth certain data and ratios between nonperforming loans, nonperforming assets, and the allowance for loan losses. During 2003, 2002 and 2001, our nonaccrual loans represented all impaired loans. We measure all loans placed on nonaccrual status for impairment based on the fair value of the underlying collateral or the net present value of the expected cash flows in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." For all periods presented, nonperforming loans equaled nonperforming assets.

	December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Nonperforming assets:					
Loans past due 90 days or more	\$ —	\$ —	\$ 1,000	\$ 98	\$ 911
Nonaccrual loans	12,350	20,411	17,307	18,287	27,552
Total nonperforming assets	<u>\$ 12,350</u>	<u>\$ 20,411</u>	<u>\$ 18,307</u>	<u>\$ 18,385</u>	<u>\$ 28,463</u>
Nonperforming loans as a percent of total gross loans	0.6 %	1.0 %	1.0 %	1.1 %	1.7 %
Nonperforming assets as a percent of total assets	0.3 %	0.5 %	0.4 %	0.3 %	0.6 %
Allowance for loan losses	\$ 64,500	\$ 70,500	\$ 72,375	\$ 73,800	\$ 71,800
As a percent of total gross loans	3.2 %	3.4 %	4.1 %	4.3 %	4.4 %
As a percent of nonaccrual loans	522.3 %	345.4 %	418.2 %	403.6 %	260.6 %
As a percent of nonperforming loans	522.3 %	345.4 %	395.3 %	401.4 %	252.3 %

Nonaccrual Loans

The detailed composition of nonaccrual loans is presented in the following table.

	December 31,	
	2003	2002
	(Dollars in thousands)	
Commercial	\$ 8,330	\$ 14,688
Real estate	3,560	5,723
Consumer and other	460	—
Total nonaccrual loans	<u>\$ 12,350</u>	<u>\$ 20,411</u>

Nonperforming Loans

Nonperforming loans totaled \$12.4 million at December 31, 2003, a decrease of \$8.0 million, or 39.5%, from the \$20.4 million total at December 31, 2002. The reduction in non-performing loans reflects the improved economic conditions experienced by our clients as well as our ability to effectively manage client credit risk through our strategic focus on the technology, life sciences, premium winery, and private equity industries. Of the total nonperforming loans at year-end 2002, \$2.3 million were charged off, \$1.2 million remained on nonperforming status, and \$16.9 million were repaid during 2003. Additionally, \$11.2 million in loans were placed on nonperforming status during 2003 and were still classified as nonperforming loans at the end of 2003.

Nonperforming loans totaled \$20.4 million at December 31, 2002, an increase of \$2.1 million, or 11.5%, from the \$18.3 million total at December 31, 2001. Of the total nonperforming loans at year-end 2001, \$8.4 million were charged off, \$1.6 million remained on nonperforming status, \$8.0 million were repaid during 2002, and \$0.3 were upgraded to performing status. Additionally, \$15.8 million in loans were placed on nonperforming status during 2002 and were still classified as nonperforming loans at the end of 2002.

Nonperforming loans totaled \$18.3 million at December 31, 2001, a decrease of \$0.1 million, or 0.4%, from the \$18.4 million total at December 31, 2000. Of the total nonperforming loans at year-end 2000, \$4.9 million were charged off, \$2.8 million remained on nonperforming status, and \$10.7 million were repaid during 2001. Additionally, \$15.5 million in loans were placed on nonperforming status during 2001 and were still classified as nonperforming loans at the end of 2001.

Nonperforming loans totaled \$18.4 million at December 31, 2000, a decrease of \$10.1 million, or 35.4%, from the \$28.5 million total at December 31, 1999. Of the total nonperforming loans at year-end 1999, \$13.4 million were charged off, \$1.1 million remained on nonperforming status and \$14.0 million were repaid during 2000. Additionally, \$17.3 million in loans were placed on nonperforming status during 2000 and still classified as nonperforming loans at the end of 2000.

In addition to the loans disclosed in the foregoing analysis as of January 31, 2004, we have identified two loans with principal amounts aggregating approximately \$4.7 million, that, on the basis of information known to us, were judged to have a higher than normal risk of becoming nonperforming. We are not aware of any other loans where known information about possible problems of the borrower cast serious doubts about the ability of the borrower to comply with the loan repayment terms.

Goodwill

Substantially all of our goodwill pertains to the acquisition of Alliant Partners, and a minor portion relates to the acquisition of Woodside Asset Management, Inc. During 2003, we conducted our annual valuation analyses of these reporting units, primarily based on forecasted discounted cash flow analyses. The valuation analysis of Woodside Asset Management, Inc. reporting unit indicated no impairment.

However, Alliant Partners' results of operations in 2003 were substantially below forecasted performance. Therefore, as required by SFAS No.142 in measuring the goodwill impairment amount, we made a hypothetical allocation of the reporting unit's estimated fair value to the tangible and intangible assets (other than goodwill). The valuation analyses performed on this reporting unit, as of June 30, 2003, and again as of December 31, 2003, indicated impairment of goodwill of \$17.0 million and \$46.0 million, respectively. We expensed these amounts as impairment charges to continuing operations during the second and fourth quarters of 2003, respectively. Thus, the total goodwill balance was \$37.5 million at December 31, 2003, reduced from \$100.5 million at December 31, 2002.

Deposits

Our deposits are largely obtained from clients within our technology, life sciences, and premium winery industry sectors, and, to a lesser extent, from individuals served by our private banking division. We do not obtain deposits from conventional retail sources and have no brokered deposits. The following table presents the composition of our deposits for the last five years:

	December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Noninterest-bearing demand	\$ 2,186,352	\$ 1,892,125	\$ 1,737,663	\$ 2,448,758	\$ 1,928,100
NOW	20,897	21,531	25,401	57,857	43,643
Regular money market	372,877	285,640	264,858	354,939	363,920
Bonus money market	707,682	647,615	630,091	1,164,624	1,481,457
Time	<u>379,068</u>	<u>589,216</u>	<u>722,964</u>	<u>836,081</u>	<u>292,285</u>

Total deposits	<u>\$ 3,666,876</u>	<u>\$ 3,436,127</u>	<u>\$ 3,380,977</u>	<u>\$ 4,862,259</u>	<u>\$ 4,109,405</u>
----------------	---------------------	---------------------	---------------------	---------------------	---------------------

Total deposits were \$3.7 billion at December 31, 2003, an increase of \$230.7 million, or 6.7%, from the prior year-end total of \$3.4 billion. The increase in deposits reflects an improved funding environment, increasing venture capital fund activity, and our various initiatives to drive business. Our noninterest-bearing demand deposits increased \$294.2 million, or 15.6%, and money market deposits increased \$147.3 million or 15.8%. These increases were partially offset by a decrease in time deposits of \$210.1 million, or 35.7% from the prior year-end.

Total deposits were \$3.4 billion at December 31, 2002, an increase of \$55.2 million, or 1.6%, from the prior year-end total of \$3.4 billion. Although our total period end client deposit balances remained fairly consistent between 2002 and 2001, we experienced a shift in the composition of deposit balances. Our noninterest-bearing demand deposits increased \$154.5 million, or 8.9%, and money market deposits increased \$38.3 million or 4.3%. These increases were largely offset by a decrease in time deposits of \$133.7 million, or 18.5% from the prior year-end.

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$333.6 million at December 31, 2003 and \$530.5 million at December 31, 2002. At December 31, 2003, substantially all time deposit accounts exceeding \$100,000 were scheduled to mature within one year. No material portion of our deposits has been obtained from a single depositor and the loss of any one depositor would not materially affect our business.

Convertible Subordinated Debt

On May 20, 2003, we issued \$150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 and outside the United States to non-US persons pursuant to Regulation S under the Securities Act. The notes are convertible into our common stock at a conversion price of \$33.6277 per share and are subordinated to all our present and future senior debt. Holders of the notes may convert their notes only under certain conditions. Please see “Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 11. Short-term Borrowings and Long-term Debt” for additional discussion.

7.0% Junior Subordinated Debentures

On October 30, 2003, we issued \$51.5 million in 7.0% Junior Subordinated Debentures. A portion of the proceeds were used to redeem the existing \$40.0 million of 8.25% Trust Preferred Securities. The remainder of the proceeds will be used for general corporate purposes. For further information, see “Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 11. Short-term Borrowings and Long-term Debt.”

Capital Resources

Our management seeks to maintain adequate capital to support anticipated asset growth and credit risks, and to ensure that Bancshares 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

\$160.0 million share repurchase program authorized by our board of directors, effective May 7, 2003

On May 7, 2003, we announced that our board of directors authorized a stock repurchase program of up to \$160.0 million. This program became effective immediately and replaced previously announced stock repurchase programs. Under this program, we repurchased in aggregate 4.5 million shares of common stock totaling \$113.2 million in 2003. On May 20, 2003, we purchased 1.3 million shares of common stock for approximately \$33.4 million in conjunction with our convertible note offering. Additionally, during the second quarter of 2003, we entered into an accelerated stock repurchase (ASR) agreement for approximately 3.2 million shares at an initial price of \$79.9 million. We completed our settlement obligations under this ASR agreement in the third quarter of 2003. See below for terms of this agreement, which are substantially the same as ASR agreements we entered into in January 2003 and November 2002.

\$100.0 million share repurchase program authorized by our board of directors on September 16, 2002

From its inception through its termination on May 7, 2003, we repurchased 5.2 million shares of common stock totaling \$94.3 million in conjunction with the \$100.0 million share repurchase program. Under this program, we had repurchased 3.3 million shares of common stock totaling \$59.7 million during 2002. A portion of the share repurchases under this program was completed under an ASR agreement; see below for terms of the agreement.

\$50.0 million share repurchase program authorized by our board of directors on March 21, 2002

During 2002, we repurchased 2.3 million shares of common stock totaling \$50.2 million in conjunction with this program.

Accelerated Stock Repurchase Agreements

In May 2003, January 2003, and November 2002, we entered into accelerated stock repurchase (ASR) agreements to facilitate the repurchase of shares of our common stock. As of December 31, 2003, we had completed all of our obligations under the ASRs. We purchased 3.2 million, 1.7 million, and 2.3 million shares of common stock from the counterparty for initial purchase prices of \$79.9 million, \$29.9 million, and \$40.0 million under the ASR agreements of May 2003, January 2003, and November 2002, respectively. The agreements had a five-year term. During the term of the agreements, we had an obligation to sell shares to the counterparty equal to the number of shares we purchased from them at the outset of the agreement. We had the option to fulfill our obligation either by buying shares in the open market and selling those shares to the counterparty at forward prices specified in the agreement or by issuing new shares and remitting them to the counterparty in exchange for the forward price. The forward price was based on a formula that began with the price of the initial purchase and was adjusted for fees and commissions and the length of time from the initial purchase to when shares were sold or delivered to the counterparty. We had complete discretion as to the timing and number of shares that we sold to the counterparty subject to a cumulative minimum of 20% by the end of each year of the agreement.

We accounted for the initial payment under the ASRs as a purchase of treasury stock, and we subsequently retired those shares. The obligation under the forward contract was not recorded in our financial statements, but, rather, treated as a contingent obligation. Under the agreements, the number of shares to be issued by us, if we were required to pay the counterparty and elected to net settle in shares, was capped.

Stockholders' Equity

Stockholders' equity totaled \$447.0 million at December 31, 2003, a decrease of \$143.3 million, or 24.3%, from the \$590.4 million balance at December 31, 2002. This decrease in 2003, as compared to 2002, was primarily due to the repurchase of 6.4 million shares of common stock for an aggregate purchase price of \$147.8 million, partially offset by net income of \$12.0 million and stock issuances under employee stock purchase and option programs. 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 December 31, 2003.

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. Once capital is allocated to both existing and future business needs, management determines if any excess capital is available. If there is, management recommends to the board of directors action steps to use the excess capital. In 2003, excess capital was used to repurchase shares. In the future, excess capital may be used to continue repurchases or pay dividends. As of December 31, 2003, there are no plans for payment of dividends or repurchases in excess of those already disclosed above.

Credit Rating

In December 2003, Standard & Poor's Rating Services assigned Silicon Valley Bancshares its "BBB-" long-term counterparty credit. Standard & Poor's assigned its "BBB" counterparty credit rating to Silicon Valley Bank. An issuer rated "BBB" is defined as having an adequate capacity to meet its financial commitments, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. According to Standard & Poor's, the outlook for both Silicon Valley Bancshares and Silicon Valley Bank is stable.

Silicon Valley Bancshares' credit rating by Moody's Investor Service ("Moody's") at December 31, 2003 was "Baa1" for issuer rating. According to Moody's, issuers rated "Baa1" offer adequate financial security. However, certain protective elements may be lacking or may be unreliable over any great period of time. Silicon Valley Bank's credit rating by Moody's at December 31, 2003 was "A3" for issuer rating, "A3" for long-term deposits, "P-2" for short-term deposits, and "C" for financial strength. Moody's bank deposit ratings are opinions of a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations. According to Moody's an "A" rating for deposits represents good credit quality, however, elements may be present that suggest a susceptibility to impairment over the long-term. Banks rated "P-2" by Moody's, for short-term deposits offer strong credit quality and a strong capacity for timely payment of short-term deposit obligations. Financial strength ratings represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's bank deposit ratings. Banks rated "C" possess adequate intrinsic financial strength and are typically institutions with more limited but still valuable business franchises, good financial fundamentals, and a predictable and stable operating environment. According to Moody's, the outlook for both Silicon Valley Bancshares and Silicon Valley Bank is stable.

Liquidity

Another important objective of asset/liability management (ALCO) 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 ALCO provides oversight to the liquidity management process and recommends policy guidelines, subject, to our board of directors' approval, and courses of action to address our actual and projected liquidity needs.

The ability to attract a stable, low-cost base of deposits is our primary source of liquidity. We continue to expand on opportunities to increase our liquidity. In the third quarter of 2002, we became a member of the Federal Home Loan Bank of San Francisco 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 20.0%. Our ratio of liquid assets to total deposits was 48.6% and 43.7% at December 31, 2003 and 2002, 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 our liquidity management activities. As of December 31, 2003 and 2002, we were in compliance with all of these policy measures.

In analyzing our liquidity during 2003, reference is made to our consolidated statement of cash flows for the year ended December 31, 2003; see "Item 8. Consolidated Financial Statements and Supplementary Data." The statement of cash flows includes separate categories for operating, investing, and financing activities. Operating activities included net income of \$12.0 million for 2003, which was adjusted for certain non-cash items including impairment of goodwill, provision for loan losses, depreciation, deferred tax assets, and an assortment of other miscellaneous items resulting in cash generated from operations. Investing activities consisted of transactions in investment securities resulting in a net cash outflow of \$50.7 million and the net change in total loans, which resulted in a net cash inflow of \$76.2 million in 2003. The net cash inflow related to loans relate to principal collections offset by loan originations. The net cash outflow from securities transactions were the net result of purchases of investment securities, offset by securities maturities and sales. Financing activities reflected cash inflows of \$234.1 million primarily resulting from a large increase in deposits and inflows from the issuance of zero-coupon convertible notes and 7.0% Junior Subordinated Debentures. Financing cash outflows resulted from repurchases of common stock and redemption of our 8.25% Trust Preferred Securities. In total, the transactions noted above resulted in a net cash inflow of \$352.4 million for 2003 and total cash and cash equivalents, as defined in our consolidated statement of cash flows, of \$795.0 million at December 31, 2003.

On a stand-alone basis, Bancshares' 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, see "Item 1. Business—Supervision and Regulation—Restriction on Dividends."

Financial Ratios

The table below presents the relationship between the following significant financial ratios:

	Years Ended December 31,		
	2003	2002	2001
Return on average assets	0.3%	1.4%	2.0%
<i>Divided by</i>			
Average equity as a percentage of average assets	12.3%	16.3%	14.9%
<i>Equals</i>			
Return on average equity	2.4%	8.5%	13.5%
<i>Times</i>			
Earnings retained	86.4%	100.0%	100.0%
<i>Equals</i>			
Internal capital growth	2.1%	8.5%	13.5%

Both Silicon Valley Bancshares' and Silicon Valley Bank's capital ratios were in excess of regulatory guidelines for a well-capitalized depository institution as of December 31, 2003, 2002, and 2001. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 23 to the Consolidated Financial Statements—Regulatory Matters." The decreases in our Tier 1 risk-based capital and Tier 1 leverage ratios from 2002 to 2003 have been caused in large part to reductions in additional paid in capital and retained earnings due to our stock repurchases in 2002 and 2003. Capital ratios for Silicon Valley Bancshares are set forth below:

	December 31,		
	2003	2002	2001
Total risk-based capital ratio	16.6%	16.0%	17.2%
Tier 1 risk-based capital ratio	12.0%	14.8%	15.9%
Tier 1 leverage ratio	10.3%	13.9%	14.8%

Certain off balance-sheet arrangements are discussed in "Item 8. Consolidated Financial Statements and Supplementary Data—Note 20 to the Consolidated Financial Statements—Off-Balance Sheet Arrangements, Guarantees, and Other Commitments."

Contractual Obligations and Commercial Commitments

As of December 31, 2003, we had the following contractual obligations and commercial commitments:

Contractual obligations	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(Dollars in thousands)				
Borrowings(1)	\$ 220,212	\$ 9,333	\$ 9,333	\$ 150,000	\$ 51,546
Operating leases(2)	40,235	12,142	14,644	9,047	4,402
Remaining unfunded commitments to wholly-owned venture capital funds(3)	31,683	31,683	—	—	—
Remaining unfunded commitments to venture capital funds by SVB Strategic Investors Fund, L.P.(3)(4)	55,680	55,680	—	—	—
Remaining unfunded commitments to SVB Strategic Investors Fund, L.P.(3)(4)	8,100	8,100	—	—	—
Remaining unfunded commitments to Silicon Valley BancVentures, L.P.(3)(5)	3,480	3,480	—	—	—
Other commercial commitments	Amount of Commitment Expiring Per Period				
Commitments to extend credit(6)	\$ 2,878,739	\$ 2,310,160	\$ 539,023	\$ 23,715	\$ 5,841
Standby letters of credit(6)	635,127	580,462	39,696	4,376	10,593
Foreign exchange letters of credit(6)	5,185	5,185	—	—	—
Commercial letters of credit(6)	4,407	4,407	—	—	—

- (1) See "Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 11. Short-term Borrowings and Long-term Debt" for further disclosure related to borrowings.
- (2) See "Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 8. Premises and Equipment" for further disclosure related to premises and equipment.
- (3) See "Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 6. Investment Securities" for further disclosure related to investment securities. In the merchant banking business, we make commitments to venture capital fund investments. Commitments to invest in these funds are generally made up to a ten-year period from the inception of the venture capital fund. The timing of future cash requirements to fund such commitments is generally dependent upon the venture capital investment cycle, the overall market conditions, and the nature and type of industry in which the privately held companies operate.
- (4) See "Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 6. Investment Securities" for further disclosure related to investment securities. Bancshares has committed capital of \$13.5 million to SVB Strategic Investors Fund, L.P., representing an ownership interest of 11.1%.

- (5) See “Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 6. Investment Securities” for further disclosure related to investment securities. Bancshares made a capital commitment of \$6.0 million to our venture capital fund, Silicon Valley BancVentures, L.P. in which we have an ownership interest of 10.7%.
- (6) See “Item 8. Consolidated Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Footnote 20. Off-Balance Sheet Arrangements, Guarantees, and Other Commitments” for further disclosure related to financial instruments with off-balance sheet risk.

Forward-Looking Statements

This discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our senior 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
- Descriptions of products, services, and industry sectors

- Forecasts of future economic performance
- Descriptions of assumptions underlying or relating to any of the foregoing.

In this report, we make forward-looking statements discussing our management's expectations about:

- Future volume of loan recoveries
- Impact to net interest margin of growth in loan balances
- Timing and frequency of investment in federal funds sold and securities purchased under agreement to resell
- Sensitivity of our loan portfolios to interest rates
- Volatility in equity security losses
- Realization, timing and performance of investments in equity securities
- Adequacy of reserves for taxes payable in connection with our real estate investment trust
- Merit of our position with regard to the tax benefits provided by our real estate investment trust
- Variability of performance of our operating segments
- Growth of client lending relationships in technology, life sciences and premium winery industry sectors
- Liquidity provided by funds generated through retained earnings
- Future 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
- Impact to cost of funds of an interest rate swap agreement

You can identify these and other forward-looking statements by using such words as: "becoming," "may," "will," "should," "predicts," "potential," "continue," "anticipates," "believes," "estimates," "seeks," "expects," "plans," "intends," or using the negative of such words, or comparable terminology. Although we believe that the expectations reflected in these forward-looking statements are reasonable, and we have based these expectations on our beliefs, as well as our assumptions, 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 about factors that could cause actual results to differ from the expectations stated in the forward-looking statements, as well as factors that could have a material impact on our financial condition and/or results of operations, please see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk—Factors That May Affect Future Results." We urge investors to consider 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 our company 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 7A. 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 (ALCO) 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.

Interest Rate Sensitivity Analysis

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets and interest sensitive liabilities that are anticipated to re-price within a specific time period. A gap is considered positive when the amount of interest rate sensitive assets

exceeds the amount of interest sensitive liabilities re-pricing within that same time period. Positive cumulative gaps in early time periods suggest that earnings will increase when interest rates rise. Negative cumulative gaps suggest that earnings will increase when interest rates fall. The gap analysis as of December 31, 2003 indicates that the cumulative one-year gap as a percentage of interest-earning assets was a positive 36%.

The following table illustrates our interest rate sensitivity gap positions at December 31, 2003:

Interest Rate Sensitivity Analysis as of December 31, 2003

	Assets and liabilities which mature or reprice								
	Immediately	1 Day to 1 Month	After 1 Month to 3 Months	After 3 Months to 6 Months	After 6 Months to 1 Year	After 1 Year to 5 Years	After 5 Years	Not Stated	Total
	(Dollars in thousands)								
Interest-Earning Assets:									
Cash and due from banks	—	\$ 252,521	—	—	—	—	—	—	\$ 252,521
Federal funds sold and securities purchased under agreement to resell(1)	—	542,475	—	—	—	—	—	—	542,475
Investment securities:									
U.S. Treasury and agencies obligations(2)	—	59,938	\$ 20,106	\$ 10,053	—	\$ 191,624	\$ 34,861	—	316,582
Collateralized mortgage obligations, mortgage-backed and asset-backed securities(2)	—	12,464	15,123	24,987	\$ 55,866	356,155	480,979	—	945,574
Obligations of states and political subdivisions	—	22,026	3,422	1,044	5,725	94,435	24,219	—	150,871
Commercial paper and other debt securities	—	26,991	—	—	—	—	—	—	26,991
Money market mutual funds	—	23,079	—	—	—	—	—	—	23,079
Other equity securities(3)	—	—	—	—	—	—	—	\$ 10,476	10,476
Total investment securities	—	144,498	38,651	36,084	61,591	642,214	540,059	10,476	1,473,573
Loans(4)(5)	\$ 1,556,020	15,880	32,197	48,956	76,959	202,675	56,542	—	1,989,229
Total interest-earning assets	\$ 1,556,020	\$ 955,374	\$ 70,848	\$ 85,040	\$ 138,550	\$ 844,889	\$ 596,601	\$ 10,476	\$ 4,257,798
Funding Sources:									
Interest-bearing demand deposits	—	\$ 54,659	\$ 105,252	\$ 148,215	\$ 264,702	\$ 1,134,897	\$ 478,627	—	\$ 2,186,352
Money market and NOW deposits	—	25,293	48,814	68,999	124,086	553,706	280,558	—	1,101,456
Time deposits	—	251,566	59,426	30,940	36,579	557	—	—	379,068
Total interest-bearing deposits	—	276,859	108,240	99,939	160,665	554,263	280,558	—	1,480,524
Short-term borrowings	—	—	—	—	9,124	—	—	—	9,124
Long-term debt	—	—	—	—	—	154,634	48,106	—	202,740
Portion of noninterest-bearing funding sources	—	—	—	—	—	—	—	\$ 379,058	379,058
Total funding sources	\$ —	\$ 331,518	\$ 213,492	\$ 248,154	\$ 434,491	\$ 1,843,794	\$ 807,291	\$ 379,058	\$ 4,257,798
Off-Balance Sheet Items:									
Interest rate swap	—	(50,000)	—	—	—	50,000	—	—	—
Gap	\$ 1,556,020	\$ 573,856	\$ (142,644)	\$ (163,114)	\$ (295,941)	\$ (948,905)	\$ (210,690)	\$ (368,582)	—
Cumulative gap	\$ 1,556,020	\$ 2,129,876	\$ 1,987,232	\$ 1,824,118	\$ 1,528,177	\$ 579,272	\$ 368,582	—	—

- (1) Includes interest-bearing deposits in other financial institutions of \$1.8 million as of December 31, 2003.
- (2) Principal cash flows are based on estimated principal payments as of December 31, 2003.
- (3) Not stated column consists of investments in Federal Reserve and Federal Home Loan Bank stock as of December 31, 2003.
- (4) Not stated column consists of nonaccrual loans of \$12.4 million offset by unearned income of \$12.3 million as of December 31, 2003.
- (5) Maturity/repricing columns for fixed rate loans are based upon the amount and timing of related principal payments as of December 31, 2003.

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). This analysis assesses the changes in market values of interest-rate-sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points and the resulting effect on our MVPE. Policy guidelines establish maximum variances in our MVPE of 20.0% and 30.0% in the event of an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, respectively.

The following table presents our MVPE exposure at December 31, 2003 and December 31, 2002, 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	Percent
(Dollars in thousands)			
December 31, 2003:			
+200	\$ 801,630	\$ 38,377	5.0%
+100	796,232	32,979	4.3
—	763,253	—	—
–100	791,797	28,544	3.7
–200	735,833	(27,420)	(3.6)

December 31, 2002:			
+200	\$ 746,459	\$ 12,864	1.8 %
+100	739,634	6,039	0.8
—	733,595	—	—
–100	722,113	(11,482)	(1.6)
–200	707,976	(25,619)	(3.5)

The preceding table indicates that at December 31, 2003, in the event of an instantaneous and sustained increase or decrease in market interest rates, our MVPE would be expected to respectively 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 in deriving 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.

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 were 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 was increased or decreased, as applicable, by 200 basis points in 12 equal increments over a one-year period.

In addition to the 200 basis point ramp scenario mentioned above we run net interest income and net income simulations in an interest rate environment whereby we shock the base rate immediately both up and down 100 basis points. The combination of the ramp and shock scenarios provides 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 sensitivity exceeding 20.0%. Simulations as of December 31, 2003 indicated that we were well 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.

Our MVPE exposure at December 31, 2003 increased slightly from December 31, 2002 primarily due to changes in the investment portfolio while staying well within our policy guidelines. In addition, our net interest income at risk remains well 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 actively manage our interest rate risk utilizing on and off-balance sheet strategies as appropriate.

Factors That May Affect Future Results

Our business faces significant risks. The factors described below may not be the only risks we face, and is not intended to serve as a comprehensive listing. 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.

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 cause reduced net income or increased 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.

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 we receive on interest-earning assets, such as loans extended to our clients and securities held in our investment portfolio. Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, and unemployment. 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.

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 middle-market 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. The amount of capital available to startup and emerging growth companies has decreased in the past three years, which has caused our client deposit balances to decline. If the amount of capital available to such companies continues to decrease, it is likely that the number of new clients and investor financial support to our existing borrowers could decrease, having 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 sciences industries. Over the past three years, the stock prices of many technology and life science companies have declined substantially, and the capital markets have been less receptive to initial public offerings. Reduced capital markets valuations could further reduce the amount of capital available to startup and emerging growth companies, including companies within our technology and life science industry sectors.

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 extremely 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.

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.

Silicon Valley Bancshares, 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 Silicon Valley Bancshares, 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 addition, Silicon Valley Bancshares, 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 Silicon Valley Bancshares and Silicon Valley Bank. Alliant Partners and SVB Securities, both broker-dealer subsidiaries, are regulated by the SEC and the 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 Silicon Valley Bancshares, Silicon Valley Bank or their subsidiaries. These supervisory actions could have a material adverse effect on our business and profitability.

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 warrants, in certain clients as part of negotiated credit facilities. We may not be able to realize gains from warrants in future periods, or our realized gains may be materially less than the current level of 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. If equity market conditions do not improve, 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 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.

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 worsen in the domestic or global economy, especially in the technology sector, our business, growth and profitability are likely to be materially adversely affected. Many of our technology clients have been harmed by the current economic slowdown, and would be further harmed by the continuation or worsening of the global or U.S. economic slowdown. 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.

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.

We cannot assure you 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. 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 to 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 you 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 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.

We face risks associated with international operations.

A component of our strategy is to expand internationally on a limited basis. Expansion into international markets, albeit on a limited basis, will require management attention and resources. We have limited experience in internationalizing our service, and we believe that many of our competitors are also undertaking expansion into foreign markets. There can be no assurance that we will be successful in expanding into international markets. 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, regulatory requirements, legal uncertainty regarding liability, tariffs, and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, different accounting practices, problems in collecting loan payments, political instability, seasonal reductions in business activity, and potentially adverse tax consequences, any of which could adversely affect the success of our international operations. To the extent we expand into 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. There can be no assurance 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 and regulatory approval 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 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT



The Board of Directors and Stockholders
Silicon Valley Bancshares:

We have audited the accompanying consolidated balance sheets of Silicon Valley Bancshares and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silicon Valley Bancshares and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Francisco, California
February 25, 2004

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands, except par value)	
Assets		
Cash and due from banks	\$ 252,521	\$ 239,927
Federal funds sold and securities purchased under agreement to resell	542,475	202,662
Investment securities	1,575,434	1,535,694
Loans, net of unearned income	1,989,229	2,086,080
Allowance for loan losses	(64,500)	(70,500)
Net loans	1,924,729	2,015,580
Premises and equipment	14,999	17,886
Goodwill	37,549	100,549
Accrued interest receivable and other assets	117,663	70,883
Total assets	<u>\$ 4,465,370</u>	<u>\$ 4,183,181</u>
Liabilities, Minority Interest, and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 2,186,352	\$ 1,892,125
NOW	20,897	21,531
Money market	1,080,559	933,255
Time	379,068	589,216
Total deposits	3,666,876	3,436,127
Short-term borrowings	9,124	9,127
Other liabilities	87,335	47,550
Long-term debt	204,286	17,397
Total liabilities	<u>3,967,621</u>	<u>3,510,201</u>
Company obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely junior subordinated debentures (Trust Preferred Securities)	—	39,472
Minority interest in capital of consolidated affiliates	50,744	43,158
Stockholders' equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; none outstanding		
Common stock, \$0.001 par value, 150,000,000 shares authorized; 35,028,470 and 40,578,093 shares outstanding at December 31, 2003 and 2002, respectively	35	41
Additional paid-in capital	14,240	99,979
Retained earnings	422,131	476,610
Unearned compensation	(1,232)	(652)
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale investment securities	11,831	14,372
Total stockholders' equity	<u>447,005</u>	<u>590,350</u>
Total liabilities, minority interest, and stockholders' equity	<u>\$ 4,465,370</u>	<u>\$ 4,183,181</u>

See accompanying notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<u>Years Ended December 31,</u>		
<u>2003</u>	<u>2002</u>	<u>2001</u>

	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans	\$ 148,770	\$ 156,240	\$ 184,859
Investment securities:			
Taxable	42,789	46,585	79,245
Non-taxable	6,248	6,894	10,801
Federal funds sold and securities purchased under agreement to resell	4,530	2,865	25,421
Total interest income	<u>202,337</u>	<u>212,584</u>	<u>300,326</u>
Interest expense:			
Deposits	9,083	16,229	36,866
Other borrowings	4,370	1,647	475
Total interest expense	<u>13,453</u>	<u>17,876</u>	<u>37,341</u>
Net interest income	188,884	194,708	262,985
Provision for loan losses	(6,223)	3,882	16,724
Net interest income after provision for loan losses	<u>195,107</u>	<u>190,826</u>	<u>246,261</u>
Noninterest income:			
Client investment fees	23,991	30,671	41,598
Deposit service charges	13,202	9,072	6,196
Corporate finance fees	13,149	12,110	2,911
Letter of credit and foreign exchange income	12,856	15,225	12,655
Income from client warrants	7,528	1,661	8,500
Credit card fees	3,431	955	625
Investment losses	(8,402)	(9,825)	(12,373)
Other	9,305	7,989	10,721
Total noninterest income	<u>75,060</u>	<u>67,858</u>	<u>70,833</u>
Noninterest expense:			
Compensation and benefits	122,093	105,168	89,060
Impairment of goodwill	63,000	—	—
Net occupancy	17,638	20,391	16,181
Professional services	13,677	18,385	24,543
Furniture and equipment	11,289	9,562	13,916
Business development and travel	8,692	8,426	10,159
Correspondent bank fees	4,343	2,835	479
Data processing services	4,288	4,360	3,785
Telephone	3,187	3,123	4,317
Tax credit fund amortization	2,704	2,963	2,756
Postage and supplies	2,601	3,190	3,995
Trust preferred securities distributions	594	2,230	3,300
Other	8,581	5,741	10,997
Total noninterest expense	<u>262,687</u>	<u>186,374</u>	<u>183,488</u>
Minority interest in net losses of consolidated affiliates	7,689	7,767	7,546
Income before income tax expense	15,169	80,077	141,152
Income tax expense	3,192	26,719	52,998
Net income	<u>\$ 11,977</u>	<u>\$ 53,358</u>	<u>\$ 88,154</u>
Earnings per common share—basic	\$ 0.33	\$ 1.21	\$ 1.85
Earnings per common share—diluted	\$ 0.32	\$ 1.18	\$ 1.79

See accompanying notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Net income	\$ 11,977	\$ 53,358	\$ 88,154
Other comprehensive (loss) income, net of tax:			
Change in unrealized gains on available-for-sale investment securities:			

Unrealized holding gains	1,954	5,804	12,398
Reclassification adjustment for gains included in net income	(4,495)	(1,107)	(5,323)
Other comprehensive (loss) income, net of tax	(2,541)	4,697	7,075
Comprehensive income	<u>\$ 9,436</u>	<u>\$ 58,055</u>	<u>\$ 95,229</u>

See accompanying notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31, 2003, 2002, and 2001 (Dollars in thousands)						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance at December 31, 2000	48,977,906	\$ 49	\$ 280,008	\$ 335,098	\$ (3,634)	\$ 2,600	\$ 614,121
Common stock issued under employee benefit plans, net of restricted stock cancellations	874,101	1	11,362	—	326	—	11,689
Income tax benefit from stock options exercised and vesting of restricted stock	—	—	4,619	—	—	—	4,619
Net income	—	—	—	88,154	—	—	88,154
Amortization of unearned compensation	—	—	—	—	1,708	—	1,708
Other comprehensive income:							
Net change in unrealized gains (losses) on available-for-sale investment securities	—	—	—	—	—	7,075	7,075
Common stock repurchases	(4,462,000)	(5)	(99,846)	—	—	—	(99,851)
Balance at December 31, 2001	45,390,007	45	196,143	423,252	(1,600)	9,675	627,515
Common stock issued under employee benefit plans, net of restricted stock cancellations	722,464	1	9,112	—	151	—	9,264
Income tax benefit from stock options exercised and vesting of restricted stock	—	—	4,113	—	—	—	4,113
Net income	—	—	—	53,358	—	—	53,358
Amortization of unearned compensation	—	—	—	—	797	—	797
Other comprehensive income:							
Net change in unrealized gains (losses) on available-for-sale investment securities	—	—	—	—	—	4,697	4,697
Common stock repurchases	(5,534,378)	(5)	(109,389)	—	—	—	(109,394)
Balance at December 31, 2002	40,578,093	41	99,979	476,610	(652)	14,372	590,350
Common stock issued under employee benefit plans, net of restricted stock cancellations	931,684	1	14,307	—	(1,712)	—	12,596
Income tax benefit from stock options exercised and vesting of restricted stock	—	—	3,468	—	—	—	3,468
Net income	—	—	—	11,977	—	—	11,977
Amortization of unearned compensation	—	—	—	—	1,132	—	1,132
Other comprehensive income:							
Net change in unrealized gains (losses) on available-for-sale investment securities	—	—	—	—	—	(2,541)	(2,541)
Convertible debt note hedge	—	—	(21,885)	—	—	—	(21,885)
Common stock repurchases	(6,481,307)	(7)	(81,629)	(66,456)	—	—	(148,092)
Balance at December 31, 2003	<u>35,028,470</u>	<u>\$ 35</u>	<u>\$ 14,240</u>	<u>\$ 422,131</u>	<u>\$ (1,232)</u>	<u>\$ 11,831</u>	<u>\$ 447,005</u>

See accompanying notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 11,977	\$ 53,358	\$ 88,154
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment of goodwill	63,000	—	—
Provision for loan losses	(6,223)	3,882	16,724
Minority interest	(7,689)	(7,767)	(7,546)
Depreciation and amortization	7,610	7,850	5,717
Net loss on sales of investment securities	8,402	9,825	12,373
Net gains on disposition of client warrants	(7,528)	(1,661)	(8,500)
Changes in other assets and liabilities:			
(Increase) decrease in accrued interest receivable	(211)	6,095	16,189
Deferred income tax (benefits) expense	(16,686)	1,687	(1,958)
Decrease in inventory	—	—	18,511
(Increase) decrease in income tax receivable	(1,478)	17,141	(6,203)
Increase (decrease) in retention, warrant and other incentive plan payable	13,641	2,774	(29,717)
Other, net	12,320	5,120	8,812
Net cash provided by operating activities	77,135	98,304	112,556
Cash flows from investing activities:			
Proceeds from maturities and paydowns of investment securities	2,667,604	3,025,729	1,615,360
Proceeds from sales of investment securities	14,368,794	2,547,913	11,381
Purchases of investment securities	(17,087,123)	(5,277,398)	(1,347,596)
Net decrease (increase) in loans	76,215	(346,824)	(92,801)
Proceeds from recoveries of charged off loans	20,363	22,175	20,636
Payments for acquisitions	—	—	(30,000)
Purchases of premises and equipment	(4,723)	(4,017)	(8,753)
Net cash provided (used) by investing activities	41,130	(32,422)	168,227
Cash flows from financing activities:			
Net increase (decrease) in deposits	230,749	55,150	(1,481,282)
Payment of short-term borrowings	(9,333)	(42,000)	—
Proceeds from issuance of convertible notes and warrants, net of issuance costs and convertible note hedge	123,340	—	—
Proceeds from issuance of 7.0% Junior Subordinated Debentures, net of issuance costs	47,839	—	—
Redemption of 8.25% Trust Preferred Securities	(40,000)	—	—
Proceeds from issuance of common stock	14,364	9,769	13,363
Repurchase of common stock	(148,092)	(109,394)	(99,851)
Capital contributions from minority interest participants	15,275	22,650	5,153
Net cash provided (used) by financing activities	234,142	(63,825)	(1,562,617)
Net increase (decrease) in cash and cash equivalents	352,407	2,057	(1,281,834)
Cash and cash equivalents at January 1,	442,589	440,532	1,722,366
Cash and cash equivalents at December 31,	\$ 794,996	\$ 442,589	\$ 440,532
Supplemental disclosures:			
Interest paid	\$ 13,084	\$ 18,487	\$ 38,431
Income taxes paid	\$ 17,802	\$ 6,812	\$ 53,798

See accompanying notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Silicon Valley Bancshares and its subsidiaries (the “Company”) offers its clients financial products and services including commercial, investment, merchant and private banking, and private equity services, as well as value-added services using its knowledge and networks.

Silicon Valley Bancshares 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. The Bank serves more than 9,500 clients across the country, through its 26 regional offices. 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 Bank serves emerging growth and mature companies in the technology and life sciences markets, as well as the premium wine industry. Merger, acquisition, private placement and corporate partnering services are provided through its wholly-owned investment banking subsidiary, Alliant Partners (“Alliant”), whose offices are in Northern California and Boston.

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America. Certain reclassifications have been made to the Company’s 2002 consolidated financial statements to conform to the 2003 presentations. Such reclassifications had no effect on the results of operations or stockholders’ equity.

Consolidation

The Consolidated Financial Statements include the accounts of Silicon Valley Bancshares and those of its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. SVB Strategic Investors, LLC and Silicon Valley BancVentures, Inc., as general partners, are considered to have significant influence over the operating and financing policies of SVB Strategic Investors Fund, L.P. and Silicon Valley BancVentures, L.P., respectively. Therefore, SVB Strategic Investors Fund, L.P. and Silicon Valley BancVentures, L.P. are included in the Company’s Consolidated Financial Statements. Minority interest in the capital of consolidated affiliates primarily represents the minority participants’ share of the equity of SVB Strategic Investors Fund, L.P., and Silicon Valley BancVentures, L.P.

Similar accounting is applied to SVB Woodside Financial, the general partner of Taurus Growth Partners, L.P. and Libra Partners, L.P., see “Item 8. Consolidated Financial Statements and Supplementary Data—Note 2 to the Consolidated Financial Statements—Business Combinations.”

Basis of Financial Statement Presentation

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities as of the balance sheet date and the results of operations for the reported periods. Actual results could differ from those estimates. A material estimate that is particularly susceptible to possible change in the near term relates to the determination of the allowance for loan losses. An estimate of possible changes or a range of possible changes cannot be made.

Revenue recognition

Revenues earned on mergers and acquisitions advisory services are recognized when Alliant Partners has fully completed its contractual and regulatory obligations related to its client service engagements.

Revenues related to client investment management fees are recognized as earned.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents as reported in the consolidated statements of cash flows include cash on hand, cash balances due from banks, federal funds sold, and securities purchased under agreement to resell. The cash equivalents are readily convertible to known amounts of cash and present insignificant risk of changes in value due to maturity dates of 90 days or less.

Federal Funds Sold and Securities Purchased under Agreement to Resell

Federal funds sold and securities purchased under agreement to resell as reported in the consolidated balance sheets include interest-bearing deposits in other financial institutions of \$1.8 million and \$0 at December 31, 2003 and 2002, respectively.

Investment Securities

Fixed Income Securities

Fixed income investment securities are classified as held-to-maturity, available-for-sale, trading, or non-marketable upon purchase or acquisition.

Securities purchased with the ability and positive intent to hold to maturity are classified as held-to-maturity and are accounted for at historical cost, adjusted for the amortization of premiums or the accretion of discounts to maturity, where appropriate. The Company did not have any investments in the held-to-maturity portfolio as of December 31, 2003 or December 31, 2002. Unrealized losses on held-to-maturity securities become realized and are charged against earnings when it is determined that an other-than-temporary decline in value has occurred.

Securities that are held to meet investment objectives such as interest rate risk and liquidity management, and which may be sold by the Company as needed to implement management strategies, are classified as available-for-sale and are accounted for at fair value. Unrealized gains and losses on available-for-sale securities, after applicable taxes, are reported in accumulated other comprehensive income, which is a separate component of stockholders' equity, until realized. Unrealized losses on available-for-sale securities becomes realized and are charged against earnings when it is determined that an other than temporary decline in value has occurred. Further, the cost basis of the individual security is written down to fair value as a new cost basis.

Amortization of premiums and accretion of discounts on debt securities are included in interest income over the contractual terms of the underlying investment securities using the straight-line method, which approximates the effective interest method.

Securities acquired and held principally for the purpose of sale in the near term are classified as trading and are accounted for at fair value. Unrealized gains and losses resulting from fair value adjustments on trading securities, as well as gains and losses realized upon the sale of investment securities, are included in noninterest income. The Company did not have a trading portfolio as of December 31, 2003 and December 31, 2002.

Non-marketable securities include Federal Reserve Bank and Federal Home Loan Bank stock and tax credit funds.

Marketable Equity Securities

Investments in marketable equity securities include:

- Unexercised warrants for shares of publicly-traded companies.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

- Investments in shares of publicly-traded companies. Equity securities in the Company's warrant, direct equity, and venture capital fund portfolios generally become marketable when a portfolio company completes an initial public offering on a publicly-reported market, or is acquired by a publicly-traded company.
- Marketable equity securities related to Taurus Growth Partners, L.P. and Libra Partners, L.P. The Company has a controlling ownership interest of less than 1% in each of these funds. Both entities were formed to invest client funds in securities and other investment vehicles, including without limitation, various equity and fixed income security instruments.

Unrealized gains or losses on warrant and equity investment securities are recorded upon the establishment of a readily determinable fair value of the underlying security, as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Instruments."

- Unrealized gains or losses after applicable taxes, on available-for-sale marketable equity securities that result from initial public offerings are excluded from earnings and are reported in accumulated other comprehensive income, which is a separate component of stockholders' equity. The Company is often contractually restricted from selling equity securities, for a certain period of time, subsequent to the portfolio company's initial public offering. Gains or losses on these marketable equity instruments are recorded in the Company's consolidated statements of income in the period the underlying securities are sold to a third party.
- Gains or losses on marketable warrant and equity investment securities that result from a portfolio company being acquired by a publicly-traded company in a stock-based transaction, are marked to market when the acquisition occurs. The resulting gains or losses are recognized into income on that date, in accordance with Emerging Issues Task Force, Issue No. 91-5, "Nonmonetary Exchange of Cost-Method Investments." Further fluctuations in the market value of these marketable equity instruments, prior to eventual sale, are excluded from earnings and are reported in accumulated other comprehensive income, which is a separate component of stockholders' equity. Upon the sale of these equity securities to a third party, gains and losses, which are measured from the acquisition price, are recognized in the Company's consolidated statements of income.
- If the Company possesses a warrant that can be settled with a net cash payment to the Company, the warrant meets the definition of a derivative instrument. Changes in fair value of such derivative instruments are recognized as securities gains or losses in the Company's consolidated statements of income.

Notwithstanding the foregoing, a decline in the fair value of any of these securities that is considered other than temporary is recorded in the Company's consolidated statements of income in the period the impairment occurs. The cost basis of the underlying security is written down to fair value as a new cost basis.

Summary financial data related to the Company's marketable equity securities at December 31, 2003 are presented in "Item 8. Consolidated Financial Statements and Supplementary Data—Note 6 to the Consolidated Financial Statements—Investment Securities."

Non-Marketable Equity Securities

The Company invests in non-marketable equity securities in several ways:

- By direct purchases of preferred or common stock in privately-held companies

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

- By capital contributions to venture capital funds, which in turn, make investments in preferred or common stock of privately held companies
- Through the Company's venture capital fund, Silicon Valley BancVentures, L.P., which makes investments in preferred or common stock of privately held companies
- Through the Company's fund of funds, SVB Strategic Investors Fund, L.P., which makes investments in venture capital funds, which in turn, invest in privately held companies

Unexercised warrant securities in private companies are initially recorded at a nominal value on the Company's consolidated balance sheets. They are carried at this value until they become marketable or expire.

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

Private Equity and Venture Capital Fund Investments

Wholly-Owned by Bancshares	Cost basis less identified impairment, if any
Owned by Silicon Valley BancVentures, L.P. and SVB Strategic Investors Fund, L.P.	Investment company accounting, adjusted to fair value on a quarterly basis through the statement of income

The Company records wholly-owned, non-marketable venture capital fund investments and other direct equity investments on a cost basis. The Company's interests are considered minor, as it owns less than 5% of the company and has no influence over the company's operating and financial policies. The Company's cost basis in each investment is reduced by returns until the cost basis of the individual investment is fully recovered. Returns in excess of the cost basis are recorded as investment gains in noninterest income.

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

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

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

The SVB Strategic Investors Fund, L.P. portfolio consists primarily of investments in venture capital funds, which are recorded at fair value using investment accounting rules. The carrying value of the investments is determined by the general partner based on the percentage of SVB Strategic Investors Fund, L.P.'s interest in the total fair market value as provided by each venture capital fund investment. SVB Strategic Investors, LLC generally utilizes the fair values assigned to the underlying portfolio investments by the management of the venture capital funds. The estimated fair value of the investments is determined after giving consideration to the relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other pertinent information. The general partner, SVB Strategic Investors, LLC, is owned and controlled by the Company and has an ownership interest of 11.1% in SVB Strategic Investors Fund, L.P. Therefore, SVB Strategic Investors Fund, L.P. is fully consolidated and any gains or losses resulting from changes in the estimated fair value of the venture capital fund investments are recorded as investment gains or losses in the Company's consolidated statements of income. The limited partners' share of any gains or losses is reflected in minority interest in net gains (losses) of consolidated affiliates and adjusts the Company's income to its percentage ownership.

Summary financial data related to the Company's non-marketable equity securities at December 31, 2003 are presented in "Item 8. Consolidated Financial Statements and Supplementary Data—Note 6 to the Consolidated Financial Statements—Investment Securities."

Loans

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income includes both deferred loan origination and commitment fees and costs. The net amount of unearned income is amortized into loan interest income over the contractual terms of the underlying loans and commitments using the interest method or the straight-line method, if not materially different, adjusted for actual loan prepayment experience.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense to provide for credit risk. The Company applies the following evaluation process to its loan portfolio to estimate the required allowance for loan losses:

The Company maintains a systematic process for the evaluation of individual loans and pools of loans for inherent risk of loan losses. On a quarterly basis, each loan in its portfolio is assigned a credit risk-rating. Credit risk-ratings are assigned on a scale of 1 to 10, 1 representing loans with a low risk of nonpayment, 9 representing loans with the highest risk of nonpayment, and 10 representing loans which have been charged-off. This credit risk-rating evaluation process includes, but is not limited to, such factors as payment status, the financial condition of the borrower, borrower compliance with loan covenants, underlying collateral values, potential loan concentrations, and general economic conditions. The Company's policies require certain credit relationships that exceed specific dollar values, be reviewed by a committee of senior management, at least quarterly. The Company's review process evaluates the appropriateness of the credit risk-rating and allocation of allowance for loan losses, as well as other account management functions. In addition, Management receives and approves an analysis for all impaired loans, as defined by the Statement of Financial Accounting Standards ("SFAS") No. 114 "Accounting by Creditors for Impairment of a Loan." The allowance for loan losses is allocated based on a historical loan loss formula allocation for similarly risk-rated loans, or for specific risk issues, which suggest a probable loss factor exceeding the

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

historical loan loss formula allocation for a specific loan, or for individual impaired loans as determined by SFAS No. 114.

The Company's evaluation process is designed to determine the adequacy of the allowance for loan losses. The Company assesses the risk of losses inherent in the loan portfolio by utilizing modeling techniques. For this purpose the Company has developed a statistical model based on historical loan loss migration to estimate an appropriate allowance for outstanding loan balances. In addition, the Company applies macro and contingent allocations to the results of the aforementioned model to ascertain the total allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of the allowance for loan losses relies, to a great extent, on the judgment and experience of the Company's management.

The Company's allowance for loan losses is established for loan losses that are probable but not yet realized. The process of anticipating loan losses is imprecise. The Company's allowance for loan losses is its best estimate using the historical loan loss experience and its perception of variables potentially leading to deviation from the historical loss experience.

Nonaccrual Loans

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures" requires the Company to measure impairment of a loan based upon the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may measure impairment based on the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent. A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement.

Loans are placed on nonaccrual status when they become 90 days past due as to principal or interest payments (unless the principal and interest are well secured and in the process of collection), when the Company has determined, based upon currently known information, that the timely collection of principal or interest is doubtful, or when the loans otherwise become impaired under the provisions of SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

When a loan is placed on nonaccrual status, the accrued interest is reversed against interest income and the loan is accounted for on the cash or cost recovery method thereafter until qualifying for return to accrual status. Generally, a loan will be returned to accrual status when all delinquent principal and interest become current in accordance with the terms of the loan agreement and full collection of the principal and interest appears probable.

Premises and Equipment

Premises and equipment are reported at cost, less accumulated depreciation and amortization computed using the straight-line method over the estimated useful lives of the assets or the terms of the related leases, whichever is shorter. This time period may range from one to 10 years. The Company had no capitalized lease obligations at December 31, 2003 and 2002.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Foreign Exchange Contracts

The Company enters into foreign exchange contracts with clients involved in international trade finance activities. The Company also enters into an opposite-way foreign exchange contract with a correspondent bank, which completely mitigates the risk of fluctuations in foreign currency exchange rates, for each of the contracts entered into with its clients. However, settlement, credit, and operational risks remain. The Company does not enter into foreign exchange contracts for any other purposes. These contracts are not designated as hedging instruments and are recorded at fair value in the Company's consolidated balance sheets. Changes in the fair value of these contracts are recognized immediately in non-interest income.

Income Taxes

The Company files a consolidated federal income tax return, and consolidated or combined state income tax returns as appropriate. The Company's federal and state income tax provisions are based upon taxes payable for the current year as well as current year changes in deferred taxes related to temporary differences between the tax basis and financial statement balances of assets and liabilities. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities

are adjusted through the provision for income taxes.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”), and related interpretations, in accounting for its employee stock options rather than the alternative fair value accounting allowed by SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No.148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” APB No. 25 provides that the compensation expense relative to the Company’s employee stock options is measured based on the intrinsic value of the stock option. SFAS No. 123 as amended by SFAS No. 148 requires companies that continue to follow APB No. 25 to provide a pro-forma disclosure of the impact of applying the fair value method of SFAS No. 123. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Financial Accounting Standards Board Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation.”

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Had compensation cost related to both the Company's stock option awards to employees and directors and to the ESPP been determined under the fair value method prescribed under SFAS No. 123, the Company's net income, basic earnings per share, and diluted earnings per share would have been the pro-forma amounts below, for 2003, 2002, and 2001:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands, except per share amounts)		
Net income, as reported	\$ 11,977	\$ 53,358	\$ 88,154
Add: Stock-based compensation expense included in reported net income, net of tax	894	651	1,036
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	(19,665)	(17,529)	(16,188)
Pro forma net income	<u>\$ (6,794)</u>	<u>\$ 36,480</u>	<u>\$ 73,002</u>
Earnings per common share—basic:			
As reported	\$ 0.33	\$ 1.21	\$ 1.85
Pro forma	(0.19)	0.83	1.53
Earnings per common share—diluted:			
As reported	0.32	1.18	1.79
Pro forma	(0.19)	0.84	1.54

See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 18 to the Consolidated Financial Statements—Employee Benefit Plans" for assumptions used in calculating the pro-forma amounts above.

Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Segment Reporting

Prior to January 1, 2002, the Company operated as one segment. On January 1, 2002, the Company reorganized into five lines of banking and financial services for management reporting: Commercial Banking, Merchant Banking, Investment Banking, Private Banking, and Other Business Services. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 14 to the Consolidated Financial Statements—Segment Reporting."

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with the provisions of SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amended and provided clarification on the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 was to be applied prospectively and was effective for contracts entered into or modified

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

after June 30, 2003. This statement will be applicable to existing contracts and new contracts entered into after June 30, 2003 if those contracts relate to forward purchases or sales of when-issued securities or other securities that do not yet exist. The adoption of SFAS No. 149 has had no material impact on the Company's results of operations or financial condition.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," establishes accounting and reporting standards for derivative instruments, and requires that all derivative instruments be recorded on the balance sheet at fair value. Additionally, the accounting for changes in fair value depends on whether the derivative instrument is designated and qualifies as part of a hedging relationship and, if so, the nature of the hedging activity. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of a particular hedge, must be recognized currently in earnings. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period, unless the derivative instrument meets the qualification for the short-cut treatment, as defined by SFAS No. 133. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 13 to the Consolidated Financial Statements—Derivative Financial Instruments." For derivative instruments that are designated and qualify as a cash flow hedge, changes in the fair value of the effective portion of the derivative instrument are recognized in Other Comprehensive Income (OCI). These amounts are reclassified from OCI and recognized in earnings when either the forecasted transaction occurs or it becomes probable that the forecasted transaction will not occur.

Business Combinations

The Company accounts for business combinations in accordance with the provisions of SFAS No. 141, "Business Combinations," which requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 2 to the Consolidated Financial Statements—Business Combinations."

Goodwill and Other Intangibles

The Company accounts for intangible assets in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually.

Goodwill, which arises from the purchase price exceeding the assigned value of the net assets of acquired business, represents the value attributable to unidentifiable intangible elements being acquired.

On an annual basis or as circumstances dictate, the Company reviews goodwill and evaluates events or other developments that may indicate impairment in the carrying amount. The evaluation methodology for potential impairments is inherently complex, and involves significant judgment in the use of estimates and assumptions. Impairment is evaluated using a two-step process. First, the aggregate fair value of the reporting unit is compared to its carrying amount, including goodwill. If the fair value exceeds the carrying amount, no impairment exists. If the carrying amount of the reporting unit exceeds the fair value, then the "implied" fair value, defined below, is compared to the reporting unit's goodwill with its carrying amount. If the carrying amount of the goodwill exceeds the implied fair value, then goodwill impairment is recognized by writing goodwill down to the implied fair value.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

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

Events that may indicate goodwill impairment include significant or adverse changes in the business, economic or political climate; an adverse action or assessment by a regulator; unanticipated competition; and a more likely-than-not expectation that a reporting unit will be sold or disposed of.

Financial Instruments with Characteristics of Both Liability and Equity

The Company accounts for financial instruments with characteristics of both liability and equity according to the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150, issued by the FASB in May 2003, established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the Statement's scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity, or between the liabilities and equity sections of the statement of financial position. SFAS No. 150 requires financial instruments issued in the form of shares that are mandatorily redeemable (or embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date or upon an event that is certain to occur) to be classified as liabilities. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted.

The Company's \$40.0 million of "Company Mandatorily Redeemable Trust Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures," or 8.25% Trust Preferred Securities, were redeemed on December 1, 2003. Beginning July 1, 2003, under SFAS No. 150, the 8.25% Trust Preferred Securities were classified under the liabilities section of the Consolidated Balance Sheet and 8.25% Trust Preferred Securities distribution expense was classified under interest expense on the Consolidated Statements of Income. Prior to adoption of SFAS No. 150, these securities were classified between the liability and equity sections of the Company's Consolidated Balance Sheets, and their related expense was classified as noninterest expense on the Company's Consolidated Statements of Income, under the heading "Trust preferred securities distributions."

Accounting for Variable Interest Entities

The Company accounts for variable interest entities according to the provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities (VIE)," or FIN No. 46R. FIN No. 46R was issued to replace FIN No. 46, and to clarify the required accounting for interests in variable interest entities. A VIE is an entity that does not have sufficient equity investments at risk, or the holders of the equity instruments lack the essential characteristics of a controlling financial interest. A VIE is to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities, or is entitled to receive a majority of the entity's residual returns, or both.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

As of December 31, 2003, the Company has completed its evaluation of VIEs and has not consolidated any VIEs in its financial statements, in accordance with the provisions of FIN No. 46R. In accordance with these provisions, the Company has not consolidated SVB Capital II, a special purpose trust formed in October 2003, for the purpose of issuing 7.0% Trust Preferred Securities. Implementation of FIN No. 46R did not have a significant impact on the Company's results of operations or financial condition.

2. Business Combinations

On October 1, 2002, the Company acquired substantially all of the assets of Woodside Asset Management, Inc., an investment advisor firm, which has approximately \$200 million under management for 70 clients. Woodside Asset Management, Inc. is expected to enable the Company to expand its product offerings in the private banking. Additionally, as part of this acquisition, Silicon Valley Bancshares obtained the general partner interests in two limited partnerships, Taurus Growth Partners, L.P., and Libra Partners, L.P., with total assets aggregating \$12.3 million at December 31, 2003. The Company has less than a 1% ownership interest in each of these funds. The remaining ownership interest represents limited partners' funds invested on their behalf by the general partner in certain fixed income and marketable equity securities. However, due to the Company's ability to control the investing activities of these limited partnerships, the Company has consolidated the related results of operations and financial condition into its consolidated financial statements, since the date of acquisition. This acquisition did not have a material impact on goodwill.

On September 28, 2001, the Company completed its acquisition of Alliant Partners and has included its results of operations in the Company's consolidated results of operations since that date. The acquisition has allowed the Company to strengthen its investment banking platform for its clients. The Company agreed to purchase the assets of Alliant for a total of \$100.0 million, due in several installments of cash and/or common stock. These installments are payable over four years between September 30, 2001 and September 30, 2005. As of December 31, 2003, the first three installments aggregating \$81.3 million have been paid in cash, and the remaining \$18.7 million, which was discounted at prevailing forward market interest rates of approximately 3.3% at the time of purchase, are recorded as short-term and long-term debt. In addition to the fixed purchase price, the sellers received certain contingent purchase price payments including 75% of the pre-tax income of Alliant for the twelve-month period ended September 28, 2002. Furthermore, the Company shall pay to the sellers an amount equal to fifteen times the amount by which Alliant's cumulative after-tax net income from October 1, 2002 to September 30, 2005 exceeds \$26.5 million, provided, however, that the aggregate amount of any deferred earn-out payment payable shall not exceed \$75.0 million. The Company also agreed to make retention payments aggregating \$5.0 million in equal annual installments on September 28, 2003, 2004, and 2005, of which the first installment was paid in late 2003. The purchase price was allocated to the assets acquired and liabilities assumed, based on the estimated net fair values at the date of acquisition of approximately \$0.5 million. The excess of purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. The business combinations were recorded in accordance with SFAS No. 141. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 1, Note 9, and Note 11 to the Consolidated Financial Statements—Significant Accounting Policies, Goodwill, and Short-term Borrowings and Long-term Debt."

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Earnings Per Share

The following is a reconciliation of basic EPS to diluted EPS for the years ended December 31, 2003, 2002, and 2001.

	<u>Net Income</u>	<u>Weighted-Average Shares</u>	<u>Per Share Amount</u>
	(Dollars and shares in thousands, except per share amounts)		
Year Ended December 31, 2003			
Basic EPS:			
Income available to common stockholders	\$ 11,977	36,109	\$ 0.33
Effect of dilutive securities:			
Stock options and restricted stock	—	1,212	
Diluted EPS:			
Income available to common stockholders plus assumed conversions	<u>\$ 11,977</u>	<u>37,321</u>	\$ 0.32
Year Ended December 31, 2002			
Basic EPS:			
Income available to common stockholders	\$ 53,358	44,000	\$ 1.21
Effect of dilutive securities:			
Stock options and restricted stock	—	1,080	
Diluted EPS:			
Income available to common stockholders plus assumed conversions	<u>\$ 53,358</u>	<u>45,080</u>	\$ 1.18
Year Ended December 31, 2001			
Basic EPS:			
Income available to common stockholders	\$ 88,154	47,728	\$ 1.85
Effect of dilutive securities:			
Stock options and restricted stock	—	1,427	
Diluted EPS:			
Income available to common stockholders plus assumed conversions	<u>\$ 88,154</u>	<u>49,155</u>	\$ 1.79

4. Restrictions on Cash Balances

The Bank is required to maintain reserves against customer deposits by keeping balances with the Federal Reserve Bank of San Francisco in a noninterest-bearing cash account. The minimum required reserve amounts were \$3.8 million and \$2.8 million at December 31, 2003 and 2002, respectively. The average required reserve balance totaled \$7.6 million in 2003 and \$10.2 million in 2002. The Company had restricted cash related to the Trust Preferred Securities totaling \$2.0 at December 31, 2002. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 12 to the Consolidated Financial Statements—Trust Preferred Securities."

5. Securities Purchased under Agreement to Resell

Securities purchased under agreement to resell at December 31, 2003 consisted of U.S. Treasury securities, U.S. agency securities, and private label mortgage-backed securities, which are rated A or better. The securities underlying the agreement are held in book-entry form in the Company's name in a custodian account. Securities purchased under agreement to resell totaled \$540.6 million and \$202.7 million at December 31, 2003 and 2002, respectively, and averaged \$355.3 million and \$145.0 million in

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Securities Purchased under Agreement to Resell (Continued)

2003 and 2002, respectively. The maximum amount outstanding at any month-end during 2003 and 2002 was \$548.3 million and \$304.9 million, respectively.

6. Investment Securities

The following tables detail the major components of the Company's investment securities portfolio at December 31, 2003 and 2002.

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
	(Dollars in thousands)			
Available-for-sale securities:				
U.S. Treasury securities	\$ 31,033	\$ 120	\$ —	\$ 31,153
U.S. agencies and corporations:				
Collateralized mortgage obligations	612,210	3,942	(4,767)	611,385
Mortgage-backed securities	294,156	4,312	(1,974)	296,494
Discount notes and bonds	285,158	999	(728)	285,429
Asset-backed securities	37,501	220	(26)	37,695
Obligations of states and political subdivisions	143,185	7,686	—	150,871
Commercial paper and other debt securities	27,778	13	(800)	26,991
Money market mutual funds	23,079	—	—	23,079
Warrant securities	165	7,511	—	7,676
Venture capital fund investments	8	—	—	8
Other equity investments(1)	8,004	598	—	8,602
Total available-for-sale securities	<u>\$ 1,462,277</u>	<u>\$ 25,401</u>	<u>\$ (8,295)</u>	<u>1,479,383</u>
Non-marketable securities at cost:				
Venture capital fund investments(2)				55,345
Tax credit funds				16,551
Other private equity investments(3)				13,679
Federal Reserve Bank stock				7,467
Federal Home Loan Bank stock				3,009
Total non-marketable securities				<u>96,051</u>
Total investment securities				<u>\$ 1,575,434</u>

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Investment Securities (Continued)

	December 31, 2002			Carrying Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
	(Dollars in thousands)			
Available-for-sale securities:				
U.S. Treasury securities	\$ 20,354	\$ 224	\$ —	\$ 20,578
U.S. agencies and corporations:				
Collateralized mortgage obligations	415,303	4,922	(64)	420,161
Discount notes and bonds	193,608	3,937	—	197,545
Mortgage-backed securities	152,633	6,303	—	158,936
Asset-backed securities	38,304	214	(10)	38,508
Obligations of states and political subdivisions	201,533	8,984	—	210,517
Money market mutual funds	378,933	—	—	378,933
Commercial paper and other debt securities	12,848	—	(1,700)	11,148
Venture capital fund investments	136	—	(125)	11
Warrant securities	25	814	—	839
Other equity investments(1)	7,055	—	—	7,055
Total available-for-sale securities	<u>\$ 1,420,732</u>	<u>\$ 25,398</u>	<u>\$ (1,899)</u>	<u>1,444,231</u>
Non-marketable securities at cost:				
Venture capital fund investments(2)				46,822
Tax credit funds				18,255
Other private equity investments(3)				16,820
Federal Reserve Bank stock				7,394
Federal Home Loan Bank stock				2,172
Total non-marketable securities				<u>91,463</u>
Total investment securities				<u>\$ 1,535,694</u>

- (1) Available-for-sale other private equity investments included \$8.6 million and \$7.1 million related to investments owned by two consolidated limited partnerships, Taurus Growth Partners, L.P. and Libra Partners, L.P. as of December 31, 2003 and 2002, respectively. The Company has a controlling ownership interest of less than 1% in the funds.
- (2) Non-marketable venture capital fund investments included \$30.1 million and \$22.1 million related to the Company's fund of funds, SVB Strategic Investors Fund, L.P., as of December 31, 2003 and 2002, respectively. The Company has a controlling ownership interest of 11.1% in the fund. Excluding the minority interest owned portion of SVB Strategic Investors Fund, L.P., the Company has non-marketable venture capital fund investments of \$28.5 million and \$27.2 million as of December 31, 2003, and 2002, respectively.
- (3) Non-marketable other private equity investments included \$10.1 million and \$10.0 million related to the Company's venture capital fund, Silicon Valley BancVentures, L.P., as of December 31, 2003 and 2002, respectively. The Company has a controlling ownership interest of 10.7% in the fund. Excluding the minority interest owned portion of Silicon Valley BancVentures, L.P., the Company has non-marketable other private equity investments of \$4.7 million and \$7.9 million as of December 31, 2003, and 2002, respectively.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Investment Securities (Continued)

The following table breaks out the Company's unrealized losses on its investment securities portfolio, into less than 12 months or 12 months or longer, as of December 31, 2003:

	December 31, 2003					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value(1)	Unrealized Losses(1)	Fair Value	Unrealized Losses
(Dollars in thousands)						
U.S. agencies and corporations:						
Collateralized mortgage obligations	\$ 218,458	\$ (4,727)	\$ 14,215	\$ (40)	\$ 232,673	\$ (4,767)
Mortgage-backed securities	119,933	(1,974)	—	—	119,933	(1,974)
Discount notes and bonds	99,284	(728)	—	—	99,284	(728)
Asset-backed securities	9,972	(26)	—	—	9,972	(26)
Commercial paper and other debt securities	—	—	9,200	(800)	9,200	(800)
Total temporarily impaired securities	<u>\$ 447,647</u>	<u>\$ (7,455)</u>	<u>\$ 23,415</u>	<u>\$ (840)</u>	<u>\$ 471,062</u>	<u>\$ (8,295)</u>

- (1) As of December 31, 2003, the Company has identified three investments totaling \$23.4 million that had unrealized losses of \$(0.8) million for a period of greater than 12 months. Of the three investments, \$14.2 million related to one security classified as a collateralized mortgage obligation. It was originally purchased in December 2002, and had unrealized losses of less than \$(0.04) million in 2003, due solely to market movements and therefore, not deemed to be permanently impaired. The two remaining securities totaled \$9.2 million and had unrealized losses of \$(0.8) million in 2003. These are auction rate preferred securities and are classified as commercial paper and other debt securities. The unrealized losses were the result of a credit downgrade from A1 to Baa2, effective June 25, 2002. The securities continue to be investment grade and the Company has deemed the impairment as temporary. Market valuations and impairment analysis on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Investment Securities (Continued)

The following tables present the carrying value of the Company's non-marketable venture capital and other private equity investments at and for the years ended December 31, 2003 and 2002:

<u>December 31, 2003</u>	(As Consolidated)				
	Venture Capital Funds		Other Private Equity		Total
	Wholly- Owned	SVB Strategic Investors Fund, L.P.(1)	Wholly- Owned	Silicon Valley BancVentures, L.P.(1)	
	(Dollars in thousands)				
Fund size	—	\$ 121,800	—	\$ 56,100	\$ 177,900
Commitments	\$ 72,004	101,763	\$ 15,668	17,921	207,356
Capital investment	40,321	46,083	15,668	17,921	119,993
Carrying value	25,196	30,149	3,583	10,096	69,024
Net investment losses	(2,648)	(4,425)	586	(1,739)	(8,226)

	(The Company's Ownership Interest)				
	Venture Capital Funds		Other Private Equity		Total
	Wholly- Owned	SVB Strategic Investors Fund, L.P.(1)	Wholly- Owned	Silicon Valley BancVentures, L.P.(1)	
Commitments	\$ 72,004	\$ 13,500	\$ 15,668	\$ 6,000	\$ 107,172
Capital investment	40,321	5,400	15,668	2,520	63,909
Carrying value	25,196	3,342	3,583	1,080	33,201
Net investment losses	(2,648)	(490)	586	(186)	(2,738)
Management fee revenue	—	985	—	1,082	2,067

<u>December 31, 2002</u>	(As Consolidated)				
	<u>Venture Capital Funds</u>		<u>Other Private Equity</u>		<u>Total</u>
	<u>Wholly- Owned</u>	<u>SVB Strategic Investors Fund, L.P.(1)</u>	<u>Wholly- Owned</u>	<u>Silicon Valley BancVentures, L.P.(1)</u>	
	(Dollars in thousands)				
Fund size	—	\$ 135,334*	—	\$ 56,100	\$ 191,434
Commitments	\$ 54,558	108,189	\$ 14,954	14,176	191,877
Capital investment	36,074	31,315	14,954	14,176	96,519
Carrying value	24,740	22,082	6,834	9,986	63,642
Net investment losses	(1,251)	(5,717)	(2,083)	(734)	(9,785)

	(The Company's Ownership Interest)				
	Venture Capital Funds		Other Private Equity		
	Wholly-Owned	SVB Strategic Investors Fund, L.P.(1)	Wholly-Owned	Silicon Valley BancVentures, L.P.(1)	Total
Commitments	\$ 54,558	\$ 15,000*	\$ 14,954	\$ 6,000	\$ 90,512
Capital investment	36,074	3,900	14,954	1,980	56,908
Carrying value	24,740	2,448	6,834	1,068	35,090
Net investment losses	(1,251)	(634)	(2,083)	(78)	(4,046)
Management fee revenue	—	1,323	—	1,082	2,405

(1) Funds managed by affiliates of Silicon Valley Bancshares.

* Effective January 1, 2003, SVB Strategic Investors Fund, L.P. reduced the total capital that can be called to \$121.8 million as a result of the reductions in the size of the underlying venture capital fund investments. The committed capital that can be called was reduced to \$13.5 million.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Investment Securities (Continued)

The amortized cost and fair value of investment securities classified as available-for-sale at December 31, 2003, categorized by remaining contractual maturity, except for variable rate auction rate securities, which use the next reset date as the maturity date, are shown below. Expected remaining maturities of mortgage-backed securities, collateralized mortgage obligations and callable U.S. agency securities may differ significantly from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. Warrant securities, venture capital fund investments, other private equity investments, Federal Home Loan Bank stock, Federal Reserve Bank stock, and tax credit funds were included in the table below as due after ten years.

	December 31, 2003	
	Amortized Cost	Carrying Value
	(Dollars in thousands)	
Due in one year or less	\$ 144,787	\$ 144,477
Due after one year through five years	320,067	325,574
Due after five years through ten years	101,301	105,192
Due after ten years	992,173	1,000,191
Total	\$ 1,558,328	\$ 1,575,434

Investment securities with a fair value of \$122.6 million and \$89.4 million at December 31, 2003 and 2002, respectively, were pledged to secure certain public deposits and a line of credit at the Federal Reserve Bank of San Francisco discount window. For further information, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 11 to the Consolidated Financial Statements—Short-term Borrowings and Long-term Debt."

The cost of investment securities is determined on a specific identification basis. The following table presents the components of gains and losses on investment securities, excluding warrant gains, for the years ended December 31, 2003, 2002, and 2001.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Gross gains on investment securities	\$ 5,909	\$ 942	\$ 1,128
Gross losses on investment securities	(14,311)	(10,767)	(13,501)
Net losses on investment securities(1)	\$ (8,402)	\$ (9,825)	\$ (12,373)

- (1) Net losses on investment securities included \$(4.4) million and \$(5.7) million related to the Company's fund of funds, SVB Strategic Investors Fund, L.P., for the years ended December 31, 2003 and 2002, respectively. The Company has a controlling ownership interest of 11.1% in the fund. In addition, net losses on investment securities included \$(1.7) million and \$(0.7) million related to the Company's venture capital fund, Silicon Valley BancVentures, L.P., for the years ended December 31, 2003 and 2002, respectively. The Company has a controlling ownership interest of 10.7% in the fund. Excluding the minority interest owned portions of SVB Strategic Investors Fund, L.P. and Silicon Valley BancVentures, L.P., the Company has net losses on investment securities of \$(2.5) million and \$(4.1) million for the years ended December 31, 2003, and 2002, respectively.

Warrant gains totaled \$7.5 million, \$1.7 million, and \$8.5 million in 2003, 2002, and 2001, respectively.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Loans and the Allowance for Loan Losses

The detailed composition of loans, net of unearned income of \$12.3 million and \$11.8 million at December 31, 2003 and 2002, respectively, is presented in the following table:

	December 31,	
	2003	2002
	(Dollars in thousands)	
Commercial	\$ 1,703,986	\$ 1,756,182
Real estate construction	62,322	43,178
Real estate term	32,115	56,190
Consumer and other	190,806	230,530
Total loans, net of unearned income	\$ 1,989,229	\$ 2,086,080

The Company's loan classifications for financial reporting purposes differ from those for regulatory reporting purposes. Loans are

classified for financial reporting purposes based upon the purpose and primary source of repayment of the loans. Loans are classified for regulatory reporting purposes based upon the type of collateral securing the loans.

A substantial percentage of the Company's loans are commercial in nature, and such loans are generally made to emerging growth or middle-market companies in a variety of industries. As of December 31, 2003, the Company's software tools and applications industry subsector represented 13.8% of total loans, premium wineries industry sector represented 15.5% of total loans, and venture capital industry subsector represented 13.7% of total loans. No other industry sector represented more than 10.0% of total loans at December 31, 2003.

The activity in the allowance for loan losses is summarized below:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Balance at January 1,	\$ 70,500	\$ 72,375	\$ 73,800
Provision for loan losses	(6,223)	3,882	16,724
Loans charged off	(20,140)	(27,932)	(38,785)
Recoveries	20,363	22,175	20,636
Balance at December 31,	<u>\$ 64,500</u>	<u>\$ 70,500</u>	<u>\$ 72,375</u>

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled \$12.4 million and \$20.4 million at December 31, 2003 and 2002, respectively. During 2003 and 2002, nonaccrual loans represented all impaired loans. Allocations of the allowance for loan losses related to impaired loans totaled \$3.1 million at December 31, 2003 and \$6.5 million at December 31, 2002. Average impaired loans for 2003, 2002, and 2001 totaled \$15.6 million, \$19.6 million, and \$21.6 million, respectively. If these loans had not been impaired, \$1.0 million, \$1.3 million, and \$2.1 million in interest income would have been realized during the years ended December 31, 2003, 2002, and 2001, respectively. The Company realized no interest income on such impaired loans during 2003, 2002 or 2001.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Premises and Equipment

Premises and equipment consist of the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Cost:		
Furniture and equipment	\$ 26,935	\$ 23,101
Leasehold improvements	17,716	16,827
Total cost	44,651	39,928
Accumulated depreciation and amortization	(29,652)	(22,042)
Premises and equipment-net	<u>\$ 14,999</u>	<u>\$ 17,886</u>

The Company is obligated under a number of noncancelable operating leases for premises that expire at various dates, through 2011, and in most instances, include options to renew or extend at market rates and terms. Such leases may provide for periodic adjustments of rentals during the term of the lease based on changes in various economic indicators. The following table presents minimum payments under noncancelable operating leases as of December 31, 2003:

<u>Years Ended December 31,</u>	
(Dollars in thousands)	
2004	\$ 12,142
2005	8,861
2006	5,783
2007	5,120
2008	3,927
2009 and thereafter	4,402
Total	<u>\$ 40,235</u>

Rent expense for premises leased under operating leases totaled \$11.0 million, \$13.7 million, and \$10.2 million for the years ended December 31, 2003, 2002 and 2001, respectively. In 2002, the Company exited leased premises, located in Santa Clara, California, approximating 18,000 square feet. The lease on the building will expire in August 2005. The management determined that the premises would have no future economic value to the Company's operations, except for any potential future sub-lease arrangement. Therefore, during 2002, the Company incurred charge-offs of approximately \$2.5 million related to the exit of these premises.

9. Goodwill

Substantially all of the Company's goodwill pertains to the acquisition of Alliant Partners, and a minor portion relates to the acquisition of Woodside Asset Management, Inc.

During 2003, the Company conducted its annual valuation analyses of these reporting units, primarily based on forecasted discounted cash flow analyses. The valuation analysis of Woodside Asset Management, Inc. reporting unit indicated no impairment.

However, Alliant Partners' results of operations in 2003 were substantially below forecasted performance. Therefore, as required by SFAS No.142 in measuring the goodwill impairment amount, the Company made a hypothetical allocation of the reporting unit's estimated fair value to the tangible and intangible assets (other than goodwill). The valuation analyses performed on this reporting unit, as of June 30, 2003, and again as of December 31, 2003, indicated impairment of goodwill of \$17.0 million and \$46.0 million, respectively. The Company expensed these amounts as impairment charges to continuing

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Goodwill (Continued)

operations during the second and fourth quarters of 2003, respectively. Thus, the total goodwill balance was \$37.5 million at December 31, 2003, reduced from \$100.5 million at December 31, 2002.

10. Deposits

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$333.6 million and \$530.5 million at December 31, 2003 and 2002, respectively. Interest expense paid on time deposits individually exceeding \$100,000 totaled \$3.2 million and \$6.7 million for 2003 and 2002, respectively. At December 31, 2003, time deposit accounts, individually exceeding \$100,000, totaling \$333.0 million were scheduled to mature within one year.

11. Short-term Borrowings and Long-term Debt

The following table represents the outstanding short-term borrowings and long-term debt at December 31, 2003, December 31, 2002, and December 31, 2001:

	Maturity	Years Ended December 31,		
		2003	2002	2001
		(Dollars in thousands)		
Short-term borrowings(1):				
Short-term borrowings	September 28, 2002	\$ —	\$ —	\$ 41,203
Short-term borrowings	September 28, 2003	—	9,127	—
Short-term borrowings	September 28, 2004	9,124	—	—
Total short-term borrowings		<u>9,124</u>	<u>9,127</u>	<u>41,203</u>
Long-term debt:				
Long-term note payable(1)	September 28, 2003	—	—	8,851
Long-term note payable(1)	September 28, 2004	—	8,844	8,564
Long-term note payable(1)	September 28, 2005	8,837	8,553	8,270
Convertible subordinated notes	June 15, 2008	145,797	—	—
Junior Subordinated Debentures	October 30, 2033	<u>49,652</u>	<u>—</u>	<u>—</u>
Total long-term debt		<u>\$ 204,286</u>	<u>\$ 17,397</u>	<u>\$ 25,685</u>

(1) Relates to the acquisition of Alliant Partners and are payable to the former owners, who were employed by the Company at December 31, 2003. These notes were discounted over their respective terms, based on market interest rates as of September 28, 2001.

Interest expense related to short-term borrowings was \$0.3 million, \$1.1 million, and \$0.3 million for the years ended December 31, 2003, 2002, and 2001, respectively. Interest expense and amortization of issuance cost related to long-term debt was \$4.1 million, \$0.6 million and \$0.2 million, for the years ended December 31, 2003, 2002, and 2001, respectively. See “Item 8. Consolidated Financial Statements and Supplementary Data—Note 2 and Note 19—Business Combinations and Related Parties.”

On May 20, 2003, the Company issued \$150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 and outside the United States to non-US persons pursuant to Regulation S under the Securities Act. The notes are convertible into the Company’s common stock at a conversion price of \$33.6277 per share and are subordinated to all present and future senior debt of the Company. Holders of the notes may convert their notes only if: (i) the price of the Company’s common stock issuable upon conversion of a note reaches a specified threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the notes falls below certain thresholds. At the initial conversion price, each \$1,000 principal amount of notes will be convertible into approximately 29.7374 shares of the Company’s

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Short-term Borrowings and Long-term Debt (Continued)

common stock. The Company filed a shelf registration statement with respect to the resale of the notes and the common stock issuable upon the conversion of the notes with the SEC on August 14, 2003. The fair value of the convertible subordinated notes at December 31, 2003 was \$178.7 million, based on quoted market prices. The Company intends to repay the principal of the notes in cash.

Concurrent with the issuance of the convertible notes, the Company entered into convertible note hedge and warrant transactions with respect to its common stock, with the objective of limiting its exposure to potential dilution from conversion of the notes. The terms and conditions of the convertible note hedge are disclosed in "Item 8. Consolidated Financial Statements and Supplementary Data—Note 13 to the Consolidated Financial Statements—Derivative Financial Instruments." The proceeds of the warrant transaction were included in stockholders' equity in accordance with the guidance in Emerging Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Under the warrant agreement, Credit Suisse First Boston LLC (the Counterparty) may purchase up to approximately 4.4 million shares of the Company's common stock at \$51.34 per share, upon the occurrence of conversion events. The warrant transaction will expire on June 15, 2008.

The Company had available federal funds and lines of credit facilities totaling \$140.0 million, which were unused at December 31, 2003.

7.0% Junior Subordinated Debentures

On October 30, 2003, the Company issued \$51.5 million in 7.0% Junior Subordinated Debentures to a newly formed special-purpose trust, SVB Capital II. SVB Capital II is a variable interest entity as defined by the provisions of FIN No. 46, which is effective for reporting periods subsequent to December 15, 2003. The Company has not been deemed to have the highest potential for risk of loss or benefit from SVB Capital II. Therefore, SVB Capital II has not been consolidated. Distributions to SVB Capital II are cumulative and are payable quarterly at a fixed rate of 7.0% per annum of the face value of the Junior Subordinated Debentures. The Junior Subordinated Debentures are mandatorily redeemable upon the maturity of the debentures on October 15, 2033, or to the extent of any earlier redemption of any debentures by the Company. The Company may redeem the debentures prior to maturity in whole or in part, at its option, at any time on or after October 30, 2008. In addition, the Company may redeem the debentures, in whole but not in part, prior to October 30, 2008 upon the occurrence of certain events. Issuance costs of \$2.2 million related to the Junior Subordinated Debentures were deferred and are being amortized over the period until mandatory redemption of the debentures in October 2033. The Company used the net proceeds to redeem \$40.0 million of its existing 8.25% Trust Preferred Securities, which were held by SVB Capital I. The Company intends to use the remaining proceeds for general corporate purposes, which may include, investment in, or extension of credit to, its subsidiaries.

On October 30, 2003, the Company entered into an interest rate swap, which hedges against the risk of changes in fair values associated with the Company's \$50.0 million, 7.0% fixed rate, Junior Subordinated Debentures. This derivative agreement provided a \$0.4 million decrease in interest expense for 2003. For further information, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 13 to the Consolidated Financial Statements—Derivative Financial Instruments."

Based on the closing market price, the fair value of the 7.0% Junior Subordinated Debentures totaled \$49.2 million as of December 31, 2003.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Trust Preferred Securities

8.25% Fixed Rate Trust Preferred Securities

In May 1998, the Company issued \$40.0 million in cumulative Trust Preferred Securities through a newly formed special-purpose trust, SVB Capital I. These 8.25% Trust Preferred Securities were redeemed effective December 1, 2003. The trust was a wholly-owned consolidated subsidiary of the Company and its sole assets were the junior subordinated deferrable interest debentures. Distributions were cumulative and were payable quarterly at a rate of 8.25% per annum of the stated liquidation amount of \$25 per preferred security. The obligations of the trust were fully and unconditionally guaranteed, on a subordinated basis, by the Company. At the time of redemption, the remaining unamortized issuance costs of \$1.3 million related to the Trust Preferred Securities were expensed.

On June 3, 2002, the Company entered into interest rate swap, which hedged against the risk of changes in fair values associated with the Company's \$40.0 million, 8.25% fixed rate, Trust Preferred Securities. This agreement provided a benefit of \$1.0 million and \$1.1 million in 2003 and 2002, respectively. The swap was terminated on June 23, 2003. For further information, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 13 to the Consolidated Financial Statements—Derivative Financial Instruments."

Please see the section under *Recent Accounting Pronouncements*, of "Item 8. Consolidated Financial Statements and Supplementary Data—Note 1 to the Consolidated Financial Statements—Summary of Significant Accounting Policies," for the impact of adoption of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

13. Derivative Financial Instruments

Derivative instruments that the Company uses as a part of its interest rate risk management may include interest rate swaps, caps, and floors and forward contracts. On October 30, 2003, the Company entered into an interest rate swap agreement with a notional amount of \$50.0 million. This agreement hedges against the risk of changes in fair values associated with the Company's \$50.0 million, 7.0% fixed rate, Junior Subordinated Debentures. For information on the company's \$50.0 million Junior Subordinated Debentures, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 11 to the Consolidated Financial Statements—Short-term Borrowings and Long-term Debt."

The terms of this interest rate hedge agreement provide for a swap of the Company's 7.0% fixed rate payment for a variable rate based on London Inter-Bank Offer Rate (LIBOR) plus a spread. Because the swap meets the criteria for the short cut treatment, the benefit or expense is recorded in the period incurred. This derivative agreement provided a benefit of \$0.4 million in 2003. The swap agreement mirrors the terms of the Junior Subordinated Debentures and therefore is callable by the counterparty anytime after October 30, 2008. The Company assumes no ineffectiveness as the swap agreement meets the short-cut method requirements under SFAS No. 133 for fair value hedges of debt instruments. As a result, changes in the fair value of the swap are offset by changes in the fair value of the Junior Subordinated Debentures, and no net gain or loss is recognized in earnings. Changes in the fair value of the derivative agreement and the Junior Subordinated Debentures are primarily dependent on changes in market interest rates. The derivative instrument had a fair value of \$0.3 million, which was recorded in other assets at December 31, 2003.

On May 15, 2003, the Company entered into a convertible note hedge agreement (purchased call option) with Credit Suisse First Boston LLC (the Counterparty) with respect to its common stock, to limit its exposure to potential dilution from conversion of the Company's \$150.0 million principal amount of zero coupon convertible notes. For information on the Company's \$150.0 million principal amount of zero coupon convertible notes, please see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 11 to the Consolidated Financial Statements—Short-term Borrowings and Long-term Debt." Upon the occurrence of conversion events, the Company has the right to purchase up to approximately 4.4 million of its 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. The Company has the option to settle

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Derivative Financial Instruments (Continued)

any amounts due under the convertible hedge either in cash or net shares of its common stock. The cost of the convertible note hedge is included in stockholders' equity in accordance with the guidance in Emerging Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

On June 3, 2002, the Company entered into an interest swap agreement with a notional amount of \$40.0 million. The swap was terminated effective June 23, 2003. This agreement hedged against the risk of changes in fair value associated with the Company's \$40.0 million, 8.25% fixed rate, Trust Preferred Securities. The 8.25% Trust Preferred Securities were redeemed in December 2003. This derivative agreement provided a benefit of \$1.0 million and \$1.1 million in 2003 and 2002, respectively. The derivative instrument had a fair value of \$0.8 million that was recorded in other assets at December 31, 2002. The other terms of this derivative agreement were substantially the same as those of the interest rate swap the Company entered into in October 2003.

For the Company's Foreign Exchange Contracts and Foreign Currency Option Contracts, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 20 to the Consolidated Financial Statements—Off-Balance Sheet Arrangements, Guarantees, and Other Commitments."

14. Segment Reporting

The Company is organized into five lines of banking and financial services for management reporting: Commercial Banking, Merchant Banking, Investment Banking, Private Banking, and Other Business Services. These operating segments are strategic units that offer different services to different clients. They are managed separately because each segment appeals to different markets and, accordingly, requires different strategies. The results of operating segments are based on the Company's management reporting process, which assigns assets, liabilities, income, and expenses to the aforementioned operating segments. This process is dynamic and, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting equivalent to generally accepted accounting principles. The management reporting process measures the performance of operating segments based on the Company's management structure and is not necessarily comparable with similar information for other financial services companies. Changes in the management structure and/or the allocation process have resulted and may in the future result in changes in the Company's 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. Results for the year ended 2002 have been restated to reflect changes in the Company's allocation methodology.

As of December 31, 2003, based on the quantitative threshold for determining reportable segments as required by SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information," the Company's reportable segments are: Commercial Banking, which is the principal operating segment of the Company, Merchant Banking, Investment Banking, and the remaining segments.

Prior to January 1, 2002, the Company operated as one segment. In 2002, the Company's principal operating segment was the Commercial Bank, and the other segments did not meet segment reporting criteria. 2001 results have not been restated to reflect the Company's current reportable segments, due to certain data not being available to us. 2001 results are shown reflecting the Commercial Bank as the Company's principal operating segment.

Commercial Banking provides lending services, which include traditional term loans, commercial finance lending, and structured finance lending. Commercial Banking's cash management services unit provides deposit services, collection services, disbursement services, electronic funds transfers, and online banking through SVBeConnect. Commercial Banking's International services unit provides trade services, foreign exchange services, export trade finance, and international cash management. Also, Commercial Banking provides investment and advisory services through the Silicon Valley Bank's broker-dealer subsidiary, SVB Securities, which includes mutual funds, fixed income securities, and investment reporting and monitoring.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Segment Reporting (Continued)

Merchant Banking makes private equity and venture capital fund investments, international alliances and manages two limited partnerships: a venture capital fund and a fund of funds. Merchant Banking also provides the lending, deposit, cash management, international, and investment banking services to venture capital firms and other private equity firms.

Investment Banking provides merger and acquisition, private placements, and corporate partnering services through the Company's broker-dealer subsidiary, Alliant Partners.

Other segments include Private Banking and Other Business Services. Private Banking provides a wide array of loan, personal asset management, mortgage services, trust and estate planning tailored for high-net-worth individuals. It also provides investment advisory services to these clients through the Company's Woodside Asset Management, Inc., subsidiary. The Other Business Services unit provides Web-based business services and professional services. Other segments also includes necessary adjustments to reconcile segment data to the Consolidated Financial Statements.

The Company's primary source of revenue is from net interest income. Thus, the Company's segments are reported below using net interest income. The Company also evaluates performance based on noninterest income and noninterest expense goals, which are also presented as measures of segment profit and loss. The Company does not allocate income taxes to the segments.

	<u>Commercial Banking</u>	<u>Merchant Banking</u>	<u>Investment Banking</u>	<u>Other</u>	<u>Total</u>
	(Dollars in thousands)				
2003					
Net interest income	\$ 151,845	\$ 11,799	\$ —	\$ 25,240	\$ 188,884
Provision for loan losses(1)	(361)	—	—	(5,862)	(6,223)
Noninterest income (loss)(2)	55,277	9,676	13,150	(3,043)	75,060
Noninterest expense(3)	141,125	17,326	75,757	28,479	262,687
Minority interest in net losses of consolidated affiliates	—	(1,992)	—	(5,697)	(7,689)
Income (loss) before income taxes	66,358	6,141	(62,607)	5,277	15,169
Total average loans	1,506,055	67,033	—	226,934	1,800,022
Total average assets(4)	2,905,758	537,308	102,078	495,379	4,040,523
Total average deposits	2,607,706	513,689	—	156,199	3,277,594
2002					
Net interest income	\$ 153,965	\$ 10,636	\$ —	\$ 30,107	\$ 194,708
Provision for loan losses(1)	5,550	1	—	(1,669)	3,882
Noninterest income (loss)(2)	60,700	2,711	12,111	(7,664)	67,858
Noninterest expense(3)	138,337	13,794	9,668	24,575	186,374
Minority interest in net losses of consolidated affiliates	—	(2,029)	—	(5,738)	(7,767)
Income before income taxes	70,778	1,581	2,443	5,275	80,077
Total average loans	1,513,262	62,530	—	186,504	1,762,296
Total average assets(4)	2,847,229	498,679	164,724	355,610	3,866,242
Total average deposits	2,445,618	460,185	—	157,713	3,063,516

- (1) For operating segment reporting purposes, the Company reports net charge-offs as the provision for loan losses. Thus, the Other segment includes \$(6.0) million and \$(1.9) million for the years ended December 31, 2003 and 2002, respectively, which represent the difference between net charge-offs and the provision for loan losses.
- (2) Noninterest income presented in the Merchant Banking segment included warrant income of \$7.5 million and \$1.7 million for the years ended December 31, 2003 and 2002, respectively.
- (3) Commercial Banking segment included depreciation and amortization of \$1.4 million and \$1.2 million for the years ended December 31, 2003 and 2002, respectively. Investment banking includes impairment of goodwill charges of \$63.0 million for the year ended December 31, 2003.
- (4) Total average assets equals the greater of total average loans or the sum of total average deposits and total average stockholders' equity for each segment. Certain adjustments are included in the Other segment to reconcile segment assets to total average assets reported on a consolidated basis. Total average assets presented in the Investment Banking segment included goodwill primarily related to the Alliant acquisition of \$81.6 million and \$98.6 million for the years ended December 31, 2003 and 2002, respectively.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Segment Reporting (Continued)

	<u>Commercial Banking</u>	<u>Other</u>	<u>Total</u>
	(Dollars in thousands)		
2001			
Net interest income	\$ 257,947	\$ 5,038	\$ 262,985
Provision for loan losses(5)	18,149	(1,425)	16,724
Noninterest income (loss)(6)	69,748	1,085	70,833
Noninterest expense(7)	168,977	14,511	183,488
Minority interest in net losses of consolidated affiliates	—	7,546	7,546
Income (loss) before income taxes	140,569	583	141,152
Total assets(8)	3,890,736	281,341	4,172,077

(5) For operating segment reporting purposes, the Company reports net charge-offs as the provision for loan losses.

(6) Noninterest income (loss) presented in other column included warrant income of \$8.5 million.

(7) Commercial Bank column included depreciation and amortization of \$8.5 million.

(8) Total assets presented in other column included goodwill, which was primarily related to Alliant Partners of \$96.4 million.

15. Common Stock Repurchases

\$160.0 million share repurchase program authorized by the board of directors, effective May 7, 2003

On May 7, 2003, the Company's announced that its board of directors authorized a stock repurchase program of up to \$160.0 million. This program became effective immediately and replaced previously announced stock repurchase programs. Under this program, the Company repurchased in aggregate 4.5 million shares of common stock totaling \$113.2 million in 2003. On May 20, 2003, the Company purchased 1.3 million shares of common stock for approximately \$33.4 million in conjunction with the Company's convertible note offering. Additionally, during the second quarter of 2003, the Company entered into an accelerated stock repurchase agreement (ASR) for 3.2 million shares at an initial price of \$79.9 million. The Company completed its settlement obligations under this ASR agreement in the third quarter of 2003. See below for terms of this ASR, which are substantially the same as ASR agreements entered into in January 2003 and November 2002.

\$100.0 million share repurchase program authorized by the board of directors on September 16, 2002

From its inception through its termination on May 7, 2003, the Company repurchased 5.2 million shares of common stock totaling \$94.3 million in conjunction with the \$100.0 million share repurchase program. Under this program, the Company had repurchased 3.3 million shares of common stock totaling \$59.7 million during 2002. A portion of the shares repurchased under this program was completed under an ASR agreement; see below for terms of this agreement.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Common Stock Repurchases (Continued)

\$50.0 million share repurchase program authorized by the board of directors on March 21, 2002

During 2002, the Company repurchased 2.3 million shares of common stock totaling \$50.2 million in conjunction with this program.

Accelerated Stock Repurchase Agreements

In May 2003, January 2003, and November 2002, the Company entered into accelerated stock repurchase (ASR) agreements to facilitate the repurchase of shares of its common stock. As of December 31, 2003, the Company had completed all of its settlement obligations under these ASRs. The Company repurchased 3.2 million, 1.7 million, and 2.3 million shares of its common stock from the counterparties for \$79.9 million, \$29.9 million, and \$40.0 million under the ASR agreements of May 2003, January 2003, and November 2002, respectively. These agreements had a five-year term. During the term of the agreements, the Company had an obligation to sell shares to the counterparty equal to the number of shares the Company purchased from them at the outset of the agreement. The Company had the option to fulfill its obligation either by buying shares in the open market and selling those shares to the counterparty at forward prices specified in the agreement or by

issuing new shares and remitting them to the counterparty in exchange for the forward price. The forward price was based on a formula that began with the price of the initial purchase and was adjusted for fees and commissions and the length of time from the initial purchase to when shares were sold or delivered to the counterparty. The Company had complete discretion as to the timing and number of shares that the Company sold to the counterparty subject to a cumulative minimum of 20% by the end of each year of the agreement.

The Company accounted for the initial payment under the ASRs as a purchase of treasury stock, and the Company subsequently retired those shares. The obligation under the forward contract was not recorded in the Company's financial statements, but, rather, treated as a contingent obligation. Under the agreements, the number of shares to be issued by the Company, if the Company were required to pay the counterparty and elected to net settle in shares, was capped.

16. Income Taxes

The components of the Company's provision for income taxes consist of the following:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Current provision:			
Federal	\$ 14,279	\$ 17,746	\$ 40,615
State	5,599	7,286	14,341
Deferred expense (benefit):			
Federal	(13,160)	4,407	(112)
State	(3,526)	(2,720)	(1,846)
Income tax expense	<u>\$ 3,192</u>	<u>\$ 26,719</u>	<u>\$ 52,998</u>

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Income Taxes (Continued)

Reconciliation between the federal statutory income tax rate and the Company's effective income tax rate is shown below.

	<u>Years Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Meals and entertainment	4.4	0.8	0.5
State income taxes, net of the federal tax effect	8.9	3.7	5.8
Tax-exempt interest income	(14.2)	(2.9)	(2.3)
Low-income housing tax credit	(13.4)	(2.7)	(0.9)
Other-net	0.3	(0.5)	(0.6)
Effective income tax rate	<u>21.0%</u>	<u>33.4%</u>	<u>37.5%</u>

Deferred tax assets (liabilities) consist of the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(Dollars in thousands)</u>	
Deferred tax assets:		
Allowance for loan losses	\$ 26,223	\$ 29,030
Other accruals not currently deductible	6,186	10,707
State income taxes	1,271	1,706
Depreciation and amortization	24,088	23
Investments	3,773	4,856
Deferred tax assets	<u>61,541</u>	<u>46,322</u>
Deferred tax liabilities:		
Losses from pass-through entities	(1,645)	(3,403)
Other deferred tax liabilities	(722)	(431)
Net unrealized losses on available-for-sale investment securities	(5,276)	(9,127)
Deferred tax liabilities	<u>(7,643)</u>	<u>(12,961)</u>
Net deferred tax assets	<u>\$ 53,898</u>	<u>\$ 33,361</u>

The Company believes a valuation allowance is not needed to reduce the net deferred tax assets as it is more likely than not that the net deferred tax assets will be realized through recovery of taxes previously paid and/or future taxable income.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Comprehensive Income

Components of other comprehensive income (loss) including the related income tax expense or benefit, consist of the following:

	<u>Years Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Dollars in thousands)		
Change in unrealized gains (losses) on available-for-sale investment securities:			
Unrealized holding gains	\$ 3,272	\$ 8,715	\$ 19,853
Related income tax effect	(1,318)	(2,911)	(7,455)
Reclassification adjustment for gains included in net income	(7,528)	(1,662)	(8,523)
Related income tax effect	3,033	555	3,200
Other comprehensive (loss) income	<u>\$ (2,541)</u>	<u>\$ 4,697</u>	<u>\$ 7,075</u>

18. Employee Benefit Plans

The Company has the following employee benefit plans:

- Equity Incentive Plans
- Silicon Valley Bank 401(k) and Employee Stock Ownership Plan
- Employee Stock Purchase Plan (ESPP)
- Employee Home Ownership Plan (EHOP)
- SVB Qualified Investors Fund LLC

Equity Incentive Plans

Each of the Company's active stock option plans has been approved by its stockholders. The Company's 1997 Equity Incentive Plan (the "1997 Plan"), provides for the granting of incentive and nonstatutory stock options which entitle directors, employees, and certain other parties to purchase shares of the Company's common stock at a price not less than 100% and 85% of the fair market value of the common stock on the date the option is granted for incentive and nonstatutory stock options, respectively. 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. In 2003, the board of directors of the Company approved an amendment to the Plan, which provides that the exercise price of each nonstatutory stock option shall be not less than eighty-five percent (85%) of the fair market value of the stock subject to the option on the date the option is granted and will be in lieu of cash compensation.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Employee Benefit Plans (Continued)

The table below provides stock option information related to the 1989 stock option plan and the 1997 Plan:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1,	6,234,638	\$ 22.63	5,174,741	\$ 20.80	4,579,574	\$ 17.93
Granted	1,780,162	29.11	2,147,709	24.73	1,460,900	25.95
Exercised	(728,277)	15.56	(562,982)	11.90	(613,609)	8.17
Forfeited	(626,556)	27.13	(524,830)	26.49	(252,124)	29.98
Outstanding at December 31,	<u>6,659,967</u>	<u>\$ 24.58</u>	<u>6,234,638</u>	<u>\$ 22.63</u>	<u>5,174,741</u>	<u>\$ 20.80</u>
Exercisable at December 31,	2,764,034	\$ 21.18	2,184,186	\$ 19.05	1,736,527	\$ 14.85

The following table summarizes information about stock options outstanding as of December 31, 2003:

Ranges of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 7.88-15.03	940,700	4.26	\$ 10.73	940,700	\$ 10.73
15.15-19.20	749,958	8.10	16.96	215,500	16.84
19.24-22.50	404,625	8.27	21.63	90,876	21.80
22.97-23.69	697,923	6.30	23.68	496,554	23.69
23.76-24.57	134,500	6.78	24.36	21,376	24.41
24.80-25.17	739,575	4.55	25.15	8,625	24.82
25.29-26.06	917,015	7.54	26.01	435,064	26.03
26.24-31.29	967,321	7.92	30.59	304,013	30.42
31.45-34.84	212,475	6.75	33.12	155,325	33.17
35.26-58.25	895,875	5.10	37.08	96,001	47.94
\$ 7.88-58.25	<u>6,659,967</u>	6.41	\$ 24.58	<u>2,764,034</u>	\$ 21.18

At December 31, 2003, options for 1,110,729 shares were available for future grant under the Company's 1997 plan. There were no shares available for future grant under the Company's 1983 and 1989 stock option plans.

The Company's 1997 Plan provides for the granting of shares of the Company's common stock to directors, employees, and certain other parties. Shares granted to employees under this plan may be subject to certain vesting requirements and resale restrictions (restricted stock). For restricted stock, unearned compensation equivalent to the market value of the Company's common stock on the date of grant is charged to stockholders' equity and amortized into noninterest expense over the vesting term. In 2003, 116,777 shares of restricted stock were issued to employees at a weighted-average fair value of \$17.24 per share. In 2002 and 2001, the Company did not issue restricted stock. At December 31, 2003, there were 293,673 shares of restricted stock outstanding, and the vesting of these shares occurs at various periods through the years 2004 and 2005.

The Company recognized \$1.1 million, \$0.8 million and \$1.7 million in employee stock-based compensation costs resulting from the amortization of unearned compensation related to restricted stock,

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Employee Benefit Plans (Continued)

stock options and other miscellaneous employee stock awards during 2003, 2002, and 2001, respectively.

The weighted-average fair values of options granted to employees, directors and certain other parties were \$12.08, \$10.69 and \$14.96 per share in 2003, 2002, and 2001, respectively. Had compensation cost related to both the Company's stock option awards to employees and directors and to the ESPP been determined under the fair value method prescribed under SFAS No. 123, the Company's net income, basic earnings per share and diluted earnings per share would have been the pro forma amounts shown in "Item 8. Consolidated Financial Statements and Supplementary Data—Note 1 to the Consolidated Financial Statements—Summary of Significant Accounting Policies—Stock-based Compensation."

The fair value of the stock option grants in 2003, 2002, and 2001 used in determining the pro forma net income and the basic and diluted earnings per share amounts were estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>Years Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Dividend yield	0.0%	0.0%	0.0%
Expected life of options in years	5	5	5
Expected volatility of the company's underlying common stock	40.5%	45.1%	64.3%
Expected risk-free interest rate	3.3%	3.0%	4.3%

The expected volatility of the Company's underlying common stock was calculated using a one-year term. The expected risk-free interest rate was calculated using a term commensurate with the expected life of the options.

Compensation expense related to the ESPP in 2003, 2002 and 2001, used in determining the pro forma net income and basic and diluted earnings per share amounts, was equal to the difference between the fair value of the Company's common stock when issued under the ESPP and the actual price paid by employees to acquire the common stock.

Silicon Valley Bank 401(k) and Employee Stock Ownership Plan

The Silicon Valley Bank 401(k) and Employee Stock Ownership Plan (the "Plan") is a combined 401(k) tax-deferred savings plan and employee stock ownership plan (ESOP) in which all regular employees of the Company are eligible to participate.

Effective January 1, 2003, employees participating in the 401(k) component of the Plan are allowed to contribute up to 75% of their pre-tax compensation as defined in the plan, up to the maximum amount allowable under federal income tax regulations (\$12,000 in 2003.) Effective January 1, 2003, the Company matches dollar-for-dollar, up to 5% of each employee's contribution to the 401(k) plan, which vests immediately. Prior to January 1, 2003, the Company matched up to \$1,000 of an employee's contributions, per annum, which vested at 20% per year. The Company's matching 401(k) contributions totaled \$3.0 million in 2003, \$0.9 million in 2002 and \$0.8 million in 2001. The amount of salary deferred is not subject to federal or state income taxes at the time of deferral.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Employee Benefit Plans (Continued)

Effective December 31, 2002, the Company merged the Silicon Valley Bank Money Purchase Pension Plan (the "MPP Plan") balances into the 401(k) plan, which continue to vest at 20% per year. The Company has not made contributions towards the MPP in 2003 and will not in the future. Prior to December 31, 2002, the MPP Plan guaranteed a quarterly contribution to all individuals who were employed by the Company on the first and last day of a fiscal quarter. The Company contributed cash in an amount equal to 5.0% of an eligible employee's quarterly base salary, less Internal Revenue Code (IRC) Section 401(k) and Section 125 deferrals. The Company's contributions to the MPP Plan totaled \$3.4 million in 2002 and \$2.7 million in 2001.

Discretionary ESOP contributions, based on the Company's net income, are made by the Company to all eligible individuals employed by the Company on the last day of the fiscal year. The Company may elect to contribute cash, or the Company's common stock, in an amount not exceeding 10.0% of the employee's eligible compensation earned in the fiscal year. The ESOP contributions vest in equal annual increments over five years.

The Company's contributions to the ESOP totaled \$3.8 million in 2003, \$0.4 million in 2002, and \$0 in 2001. At December 31, 2003, the ESOP owned 1,006,089 shares of the Company's common stock. All shares held by the ESOP are treated as outstanding shares in both the Company's basic and diluted earnings per share computations. At December 31, 2003, the company had zero shares committed to the ESOP program.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan (ESPP) under which participating employees may annually contribute up to 10.0% of their gross compensation to purchase shares of the Company's 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 of the Company are eligible to participate in the ESPP. The ESPP is noncompensatory to the employees and results in no expense to the Company. For the first six-month offering period of 2003, 92,408 shares of the Company's common stock were issued at \$15.86 per share, while 73,233 shares of the Company's common stock were issued at \$20.24 per share for the second six-month offering period of 2003. At December 31, 2003, a total of 1,291,623 shares of the Company's common stock were reserved for future issuance under the ESPP Plan.

Employee Home Ownership Plan

In 2002, the Company approved a benefit plan, the Employee Home Ownership Plan (EHOP), which provides for the issuance of mortgage loans to eligible employees at favorable interest rates. Eligible employees may apply for a fixed rate mortgage on their primary residence, which is amortized over 30 years and is due and payable in five years. Applicants must qualify for a loan through the usual mortgage review and approval process, which is typical of industry standards. The maximum loan amount cannot be greater than 80.0% of the lesser of the purchase price or the appraised value. The interest rate on the note is written at the then market rate of 5 year (5/1) mortgage loans as determined by the Company. However, provided that the applicant continues to meet all of the eligibility requirements, including employment at the Company, the actual rate charged to the borrower shall be 2.0% below the market rate. The loan rate shall not be less than 25 basis points over the greater of either the five-year Treasury Note rate or the monthly Applicable Federal Rate for medium term loans as published by the IRS. The loan rate will be fixed at the time of approval and locked for 30 days.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Employee Benefit Plans (Continued)

The following table includes EHOP loans to all employees:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	(Dollars in thousands)	
Balance at January 1,	\$ 8,959	—
Loan proceeds disbursed for EHOP	13,445	\$ 9,406
Loan repayments for EHOP	(6,890)	(447)
Balance at December 31,	<u>\$ 15,514</u>	<u>\$ 8,959</u>

SVB Qualified Investors Fund LLC

In late 2000, the Company formed SVB Qualified Investor Fund LLC, on behalf of certain eligible employees. The fund was initially fully capitalized by equity contributions by employees. The fund's principal purpose is to invest in a select number of private equity funds managed primarily by Silicon Valley Bancshares or its affiliates. The fund will continue until December 12, 2013, unless terminated sooner or extended in accordance with the fund operating agreement. The Company incurred fund administration costs of approximately \$0.2 million in each of the years 2003, 2002 and 2001.

19. Related Parties

Certain directors and senior employees have loan balances outstanding with the Company at December 31, 2003, 2002, and 2001. These loans have primarily been granted by the Company for the purpose of assisting employee relocations, and typically include terms more favorable than those prevailing at the time for comparable transactions with other borrowers. Additionally, as of December 31, 2003, there were no EHOP loans outstanding to Executive Officers of the Company, who are deemed to be subject to the requirements of Section 16 of the Securities and Exchange Act of 1934. For further information on EHOP loans, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 18 to the Consolidated Financial Statements—Employee Benefit Plans."

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Balance at January 1,	\$ 5,522	\$ 2,348	\$ 2,113
Loan proceeds disbursed for relocation	200	475	350
Loan repayments for relocation	(495)	(755)	(115)
Loan proceeds disbursed for EHOP	1,000	3,500	—
Loan repayments for EHOP	(4,454)	(46)	—
Balance at December 31,	<u>\$ 1,773</u>	<u>\$ 5,522</u>	<u>\$ 2,348</u>

Additionally, certain borrowings described under "Item 8. Consolidated Financial Statements and Supplementary Data—Note 11 to the Consolidated Financial Statements—Short-term Borrowings and Long-term Debt" are due to the selling partners of Alliant, who became employees of the Company.

20. Off-Balance Sheet Arrangements, Guarantees, and Other Commitments

In the normal course of business, the Company uses financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit, foreign exchange options, and foreign exchange forward contracts. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Off-Balance Sheet Arrangements, Guarantees, and Other Commitments (Continued)

the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract.

Commitments to Extend Credit

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established in the agreement. Such commitments generally have fixed expiration dates, or other termination clauses, and usually require a fee paid by the client upon the Company issuing the commitment. Commitments which are available for funding, due to clients meeting all collateral, compliance and financial covenants required under loan commitment agreements, totaled \$1.7 billion and \$1.5 billion at December 31, 2003 and 2002, respectively. Out of these available commitments balances, the fixed rate commitments were \$167.9 million and \$133.1 million at December 31, 2003 and 2002, respectively. The Company's exposure arising from interest rate risk associated with fixed rate loan commitments is not considered material. Commitments which are unavailable for funding, due to clients not meeting all collateral, compliance and financial covenants required under loan commitment agreements, totaled \$1.2 billion and \$1.0 billion at December 31, 2003 and 2002, respectively. The Company's potential exposure to credit loss, in the event of nonperformance by the other party to the financial instrument, is the contractual amount of the available unused loan commitment. The Company uses the same credit approval and monitoring process in extending loan commitments as it does in making loans. The actual liquidity needs or the credit risk that the Company has experienced have historically been lower than the contractual amount of commitments to extend credit because a significant portion of these commitments expire without being drawn upon. The Company evaluates each potential borrower and the necessary collateral on an individual basis. The type of collateral varies, but may include real property, bank deposits or business and personal assets. The potential credit risk associated with these commitments is considered in management's evaluation of the adequacy of the allowance for loan losses.

Commercial and Standby Letters of Credits

Commercial and standby letters of credit represent conditional commitments issued by the Company on behalf of a client to guarantee the performance of the client to a third party when certain specified future events have occurred. Commercial letters of credit are issued primarily for inventory purchases by client and are typically short-term in nature. The Company provides two types of standby letter of credit, performance and financial standby letter of credits. Financial standby letters of credit are conditional commitments issued by the Company 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 the Company issues the commitment. Fees generated from these standby letters of credit are recognized in noninterest income over the commitment period.

The credit risk involved in issuing letters of credit is essentially the same as that involved with extending loan commitments to clients, and accordingly, the Company uses a credit evaluation process and collateral requirements similar to those for loan commitments. The Company's standby letters of credit often are cash-secured by its clients. The actual liquidity needs or the credit risk that the Company has 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.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Off-Balance Sheet Arrangements, Guarantees, and Other Commitments (Continued)

Obligation Under Guarantees

The Company provides guarantees related to financial and performance standby letters of credit.

The table below summarizes the Company's standby letter of credits at December 31, 2003. The maximum potential amount of future payments represents the amount that could be lost under the standby letter of credits 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.

	<u>Expires in one year or less</u>	<u>Expires after one year</u> (dollars in thousands)	<u>Total amount outstanding</u>	<u>Maximum amount of future payments</u>
Financial standby	\$ 523,700	\$ 52,814	\$ 576,514	\$ 576,514
Performance standby	56,762	1,851	58,613	58,613
Total	<u>\$ 580,462</u>	<u>\$ 54,665</u>	<u>\$ 635,127</u>	<u>\$ 635,127</u>

At December 31, 2003, the carrying amount of the liabilities related to financial and performance standby letters of credit was approximately \$4.9 million. At December 31, 2003, cash collateral available to the Company to reimburse losses under financial and performance standby letters of credits was \$265.0 million.

Foreign Exchange Forward Contracts

The Company enters 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. The Company enters into an opposite way foreign exchange forward contract with a correspondent bank, which completely mitigates the risk of fluctuations in foreign currency exchange rates, for each of the foreign exchange forward contracts entered into with its clients. These contracts are short-term in nature, typically expiring in less than 90 days. At December 31, 2003 and 2002, the notional amounts of these contracts totaled \$95.4 million and \$310.8 million, respectively. The maximum credit exposure for counter-party nonperformance for foreign exchange forward contracts with both clients and correspondent banks amounted to \$2.5 million at December 31, 2003 and \$7.4 million at December 31, 2002. The Company has not experienced nonperformance by a counter-party and therefore has not incurred related losses. Further, the Company anticipates performance by all counter-parties to such foreign exchange forward contracts.

Foreign Currency Option Contracts

The Company enters 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. The Company enters 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 its clients. These contracts typically expire in less than one year. At December 31, 2003 and 2002, the notional amounts of these contracts totaled \$21.1million and \$49.5 million, respectively. At December 31, 2003, and 2002, the Company did not have any credit exposure for counter-party nonperformance for currency option contracts with both clients and correspondent banks. The Company has not experienced nonperformance by a counter-party and therefore has not incurred related losses. Further, the Company anticipates performance by all counter-parties.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Off-Balance Sheet Arrangements, Guarantees, and Other Commitments (Continued)

Commitments to Invest in Venture Capital Funds

In the merchant banking business, the Company makes commitments to venture capital fund investments, which in turn make investments in privately held companies. Commitments to invest in these funds are generally made up to a ten-year period from the inception of the venture capital fund. The timing of future cash requirements to fund such commitments is generally dependent upon the venture capital investment cycle, the overall market conditions, and the nature and type of industry in which the privately-held companies operate. As of December 31, 2003, the Company had remaining unfunded commitments of \$31.7 million to wholly-owned venture capital fund investments and \$55.7 million to venture capital fund investments through the fund of funds, SVB Strategic Investors Fund, L.P. The Company has committed capital of \$13.5 million to SVB Strategic Investors Fund, L.P., representing an ownership interest of 11.1%. As of December 31, 2003, the remaining unfunded commitment to the fund was \$8.1 million. In addition, the Company made a capital commitment of \$6.0 million to our venture capital fund, Silicon Valley BancVentures, L.P. in which the Company has an ownership interest of 10.7%. The remaining unfunded commitment to the fund was \$3.5 million as of December 31, 2003.

21. Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions, set forth below for the Company's financial instruments, are made solely to comply with the requirements of SFAS No. 107 and should be read in conjunction with the Company's consolidated financial statements and related notes.

Fair values are based on estimates or calculations at the transaction level using present value techniques in instances where quoted market prices are not available. Because broadly traded markets do not exist for many of the Company's financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. Fair valuations are management's estimates of the values, and they are often calculated based on current pricing policies, the economic and competitive environment, the characteristics of the financial instruments, expected losses, and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgment, and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets, and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein does not represent, and should not be construed to represent, the underlying value of the Company.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Fair Value of Financial Instruments (Continued)

The following describes the methods and assumptions used in estimating the fair values of financial instruments.

Cash and Cash Equivalents

This category includes cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold, and securities purchased under agreement to resell. The cash equivalents are readily convertible to known amounts of cash and present insignificant risk of changes in value due to maturity dates of 90 days or less. For these short-term financial instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For marketable investment securities classified as available-for-sale, fair values are based on quoted market prices provided by a known and reputable pricing service or dealer quotes. The Company records its wholly-owned non-marketable venture capital fund investments and other private equity investments on a cost basis less any identified impairment. For the Company's venture capital fund, Silicon Valley BancVentures, L.P., and its fund of funds, SVB Strategic Investors Fund, L.P., the Company records the non-marketable venture capital fund investments and other private equity investments at fair value using investment accounting rules. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 1 to the Consolidated Financial Statements—Significant Accounting Policies—Marketable Equity Securities."

Loans

The fair value of fixed and variable rate loans is estimated by discounting contractual cash flows using discount rates that reflect the

Company's current pricing for loans and the forward yield curve.

Deposits

The fair value of interest bearing deposits is estimated by discounting the deposit balances using the Company's cost of borrowing funds in the market and the forward yield curve. The Demand deposits are stated at face value. The deposit portfolio was segregated by core and non-core deposits. In addition, the duration and interest rate sensitivity of the individual deposit accounts was taken into account in determining the fair value.

Short-term Borrowings and Long-term Debt

The fair value of long-term debt is estimated based on quoted market prices for the issues for which there is a market. Otherwise, the fair value of short-term borrowings and long-term debt is calculated by discounting the contractual cash flows using the forward yield curve. The fair value of the Company's convertible subordinated debt is estimated taking into account the value of its associated convertible note hedge agreement. The hedge agreement limits the Company's exposure to potential dilution from conversion of the notes.

Off-Balance Sheet Financial Instruments

The fair value of unfunded commitments to extend credit is estimated based on the average amount the Company would receive or pay to execute a new agreement with identical terms, considering current interest rates and taking into account the remaining terms of the agreement and counterparties' credit standing.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Fair Value of Financial Instruments (Continued)

Letters of credit generally expire in 90 days or less, therefore their fair value was estimated at \$0 in 2003 and 2002 due to their short-term nature. Commitments to extend credit and letters of credit typically result in loans with a market interest rate when funded.

Limitations

The information presented herein is based on pertinent information available to the Company as of December 31, 2003 and 2002, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since the most recent year-end and the estimated fair values of these financial instruments may have changed significantly since that point in time.

The estimated fair values of the Company's financial instruments at December 31, 2003 and 2002 are presented below.

	December 31,			
	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)				
Financial assets:				
Cash and due from banks	\$ 252,521	\$ 252,521	\$ 239,927	\$ 239,927
Federal funds sold and securities purchased under agreement to resell	542,475	542,475	202,662	202,662
Investment securities, at fair value	1,479,383	1,479,383	1,444,231	1,444,231
Non-marketable securities	96,051	90,654	91,463	87,542
Net loans	1,924,729	1,999,037	2,015,580	2,040,290
Financial liabilities:				
Noninterest-bearing demand deposits	2,186,352	2,128,426	1,892,125	1,803,673
NOW deposits	20,897	20,060	21,531	18,675
Money market deposits	1,080,559	1,085,354	933,255	905,572
Time deposits	379,068	378,876	589,216	588,897
Short-term borrowings	9,124	9,070	9,127	9,140
Long-term debt	204,286	202,870	17,397	18,164
Off-balance sheet financial assets:				
Commitments to extend credit	\$ 6,819	\$ 6,819	\$ 5,878	\$ 5,878

22. Legal Matters

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Company and/or the Bank. Based upon information available to the Company, its review of such claims to date and consultation with its legal counsel, management believes the liability relating to these actions, if any, will not have a material adverse effect on the Company's liquidity, consolidated financial position or results of operations.

23. Regulatory Matters

The Bank is subject to certain restrictions on the amount of dividends that it may declare without the prior approval of the Federal Reserve Board and the California Department of Financial Institutions. At December 31, 2003, approximately \$2.8 million of the Bank's retained earnings were available for dividend declaration to the Company without prior regulatory approval.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Regulatory Matters (Continued)

The Company and the Bank are subject to capital adequacy guidelines issued by the Federal Reserve Board. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material impact on the Company's and/or the Bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's balance sheet items, as well as certain off-balance sheet items, as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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, of risk-weighted assets and certain off-balance sheet items for a well capitalized depository institution.

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.

The following table presents the capital ratios for the Company and the bank, as compared to the minimum regulatory capital requirements for an adequately capitalized depository institution, as of December 31, 2003 and 2002:

	<u>Actual Ratio</u>	<u>Actual Amount</u> (Dollars in thousands)	<u>Minimum Ratio</u>	<u>Minimum Capital Requirement</u>
As of December 31, 2003:				
Total risk-based capital ratio				
Company	16.6%	\$ 590,298	8.0%	\$ 284,675
Bank	14.0%	\$ 476,807	8.0%	\$ 273,308
Tier 1 risk-based capital ratio				
Company	12.0%	\$ 425,570	4.0%	\$ 142,337
Bank	12.7%	\$ 433,834	4.0%	\$ 136,654
Tier 1 leverage ratio				
Company	10.3%	\$ 425,570	4.0%	\$ 164,855
Bank	11.0%	\$ 433,834	4.0%	\$ 158,222
As of December 31, 2002:				
Total risk-based capital ratio				
Company	16.0%	\$ 555,979	8.0%	\$ 277,383
Bank	13.9%	\$ 463,439	8.0%	\$ 267,554
Tier 1 risk-based capital ratio				
Company	14.8%	\$ 512,303	4.0%	\$ 138,691
Bank	12.6%	\$ 421,324	4.0%	\$ 133,777
Tier 1 leverage ratio				
Company	13.9%	\$ 512,303	4.0%	\$ 147,764
Bank	11.8%	\$ 421,324	4.0%	\$ 142,365

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Stockholders' Rights Plan

On October 22, 1998, the Company's board of directors (the "Board") approved and adopted a stockholders' rights plan (the "Rights Plan") to, among other things, protect the Company's stockholders from coercive takeover tactics. On November 6, 2003, the Board approved and adopted Amendment No. 1 to the Rights Plan to increase from 10% to 15% the minimum percentage of common shares that any person shall beneficially own to qualify as an "Acquiring Person" for purposes of triggering the stockholders' rights under the Rights Plan. On January 29, 2004, the Board approved and adopted an amended and restated Rights Plan (the "Amended and Restated Rights Plan"), which supercedes and replaces in entirety the Rights Plan.

The following summary of the Rights and the Amended and Restated Rights Plan is a general description only and is subject to the detailed terms and conditions of the Amended and Restated Rights Plan, a copy of which is attached as Exhibit 4.20 to the Company's

amended and restated registration statement on Form 8-A/A, filed with the Securities and Exchange Commission on February 27, 2004 and incorporated herein by reference. Each capitalized term used but not defined below has the meaning ascribed to such term in the Amended and Restated Rights Plan.

Under the Amended and Restated Rights Plan, each stockholder of record on November 9, 1998 received a dividend of one right (a "Right") for each outstanding share of common stock of the Company. The Rights are attached to, and presently only traded with, shares of the Company's common stock and are not currently exercisable. Except as specified below, upon becoming exercisable, each Right will entitle the holder to purchase from the Company 1/1000th of a share of the Company's Series A Participating Preferred Stock at a price of \$100.00 per share.

The Rights will become exercisable and begin to trade separately from shares of the Company's common stock upon the earlier of: (i) the tenth (10th) business day (or such later date as may be determined by action of the Company's board of directors) following a public announcement that a person or group has acquired beneficial ownership of 15% or more of the outstanding shares of the Company's common stock, or (ii) the close of business on the tenth (10th) business day (or such later date as may be determined by action of the Company's board of directors) following the commencement of, or announcement of a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding shares of the Company's common stock.

Unless the Rights are earlier redeemed, in the event that an a person or group becomes the beneficial owner of 15% or more of the outstanding shares of the Company's common stock, then each Right which has not theretofore been exercised (other than the Rights beneficially owned by the acquiring person, which will thereafter be void) will thereafter entitle the holder to receive, upon exercise, common shares having a value equal to two times the exercise price of the Right.

Similarly, unless the Rights are earlier redeemed, in the event that, after a person or group becomes the beneficial owner of 15% or more of the outstanding shares of the Company's common stock, (i) the Company is acquired in a merger or other business combination transaction, or (ii) 50% or more of the Company's consolidated assets or earning power are sold (other than in transactions in the ordinary course of business), then each Right which has not theretofore been exercised (other than the Rights beneficially owned by the acquiring person, which will thereafter be void) will thereafter entitle the holder to receive, upon exercise, shares of common stock of the acquiring company having a value equal to two times the exercise price of the Right. The Company's board of directors has the option any time after a person or group becomes a 15% holder of the outstanding shares of the Company's common stock to exchange all or part of the Rights (other than Rights held by the acquiring person) for shares of common stock of the Company provided that the Company does not make such an exchange after the person becomes the beneficial owner of 50% or more of the Company's outstanding common stock.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Stockholders' Rights Plan (Continued)

At any time on or prior to the close of business on the earlier of (i) the fifth day following a public announcement that a person or group has acquired beneficial ownership of 15% or more of the outstanding common shares (or such later date as may be determined by action of the Company's board of directors and publicly announced by the Company) and (ii) January 31, 2014, the Company may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right, subject to adjustment.

25. Parent Company Only Condensed Financial Information

The condensed balance sheets of Silicon Valley Bancshares (parent company only) at December 31, 2003 and 2002, and the related condensed statements of income and condensed statements of cash flows for the years ended December 31, 2003, 2002, and 2001 are presented below. Certain reclassifications have been made to the parent company's 2002 and 2001 financial information to conform to the 2003 presentations. Such reclassifications had no effect on the results of operations or stockholders' equity.

Condensed Balance Sheets

	December 31,	
	2003	2002
	(Dollars in thousands)	
Assets:		
Cash and due from banks(1)	\$ 2,224	\$ 6,905
Federal funds sold and securities purchased under agreement to resell	45,000	—
Investment securities	104,773	92,855
Loans(2)	5,178	5,267
Other assets	11,730	11,410
Investment in subsidiaries:		
Bank subsidiary	442,354	439,065
Nonbank subsidiaries	71,939	109,941
Total assets	\$ 683,198	\$ 665,443
Short-term borrowings	\$ 9,124	\$ 9,127
Long-term debt(3)	204,286	17,397
Other liabilities	22,783	7,718
Indebtedness to nonbank subsidiary, net of issuance costs(3)	—	40,851
Total liabilities	236,193	75,093
Stockholders' equity	447,005	590,350
Total liabilities and stockholders' equity	\$ 683,198	\$ 665,443

(1) Includes cash on deposit with third-party banks of \$0 and \$2.0 million at December 31, 2003 and 2002, respectively.

(2) Includes loans to related parties of \$1.3 million and \$5.3 million at December 31, 2003 and 2002, respectively.

(3) At December 31, 2003, includes \$150.0 million of zero-coupon, convertible debt, \$51.5 million of 7.0% Junior Subordinated Debentures net of issuance costs, and approximately \$8.8 million due to the former owners of Alliant Partners. Contrary to prior practice, for periods ending after December 15, 2003, in accordance with the provision of FIN No. 46, the Company has not consolidated a special purpose trust, which was formed for the purpose of issuing 7.0% Trust Preferred Securities. Therefore, as of December 31, 2003, the Company's Junior Subordinated Debentures of \$51.5 million issued to this special purpose trust were classified as long-term debt and are not classified as "indebtedness to nonbank subsidiary." The parent company guarantees all of the obligations of this special purpose trust.

For periods ending prior to December 15, 2003, in accordance with the accounting rules in effect at that time, the Company consolidated a special purpose trust, SVB Capital I, formed for the purpose of issuing \$40.0 million in 8.25% Trust Preferred Securities. Therefore, for periods ending prior to December 15, 2003 the related 8.25% Junior Subordinated Debentures were classified as "indebtedness to nonbank subsidiary." On December 1, 2003, the Company redeemed the \$40.0 million of 8.25% Trust Preferred Securities.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Parent Company Only Condensed Financial Information (Continued)

Condensed Statements of Income

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Interest income	\$ 1,173	\$ 2,523	\$ 4,301

Interest expense	(6,070)	(3,613)	(3,402)
Dividend income from bank subsidiary	51,000	80,000	140,000
Income from the disposition of client warrants	7,528	1,435	8,500
Investment losses	(2,084)	(3,229)	(5,938)
General and administrative expenses	(5,469)	(4,396)	(2,881)
Income tax benefit (expense)	1,762	3,245	(2,030)
Income before net (loss) income of subsidiaries	47,840	75,965	138,550
Equity in net (loss) income of nonbank subsidiaries	(38,712)	55	(198)
Equity in net income (loss) of bank subsidiary	2,849	(22,662)	(50,198)
Net income	<u>\$ 11,977</u>	<u>\$ 53,358</u>	<u>\$ 88,154</u>

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Parent Company Only Condensed Financial Information (Continued)

Condensed Statements of Cash Flows

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 11,977	\$ 53,358	\$ 88,154
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net gains on dispositions of client warrants	(7,528)	(1,435)	(8,500)
Net loss on sales of investment securities	2,084	5,176	5,938
Net income of bank subsidiary	(2,849)	22,662	50,198
Net loss (income) of nonbank subsidiaries	38,712	(55)	198
Decrease (increase) in other assets	(320)	(8,842)	16,009
Increase (decrease) in other liabilities	13,196	7,459	(8,345)
Other, net	376	558	(205)
Net cash provided by operating activities	<u>55,648</u>	<u>78,881</u>	<u>143,447</u>
Cash flows from investing activities:			
Net decrease (increase) in investment securities	1,427	99,314	(73,918)
Net decrease (increase) in loans	89	(2,919)	(235)
Investment in bank subsidiary	(4,958)	(1,884)	(9,367)
Investment in nonbank subsidiaries	(5)	(103,214)	(1,163)
Net cash used by investing activities	<u>(3,447)</u>	<u>(8,703)</u>	<u>(84,683)</u>
Cash flows from financing activities:			
(Decrease) increase in short-term borrowings and long-term debt	(9,333)	26,524	—
Proceeds from issuance of convertible notes and warrants, net of issuance costs and convertible note hedge	123,340	—	—
Proceeds from issuance of 7.0% Junior Subordinated Debentures, net of issuance costs	47,839	—	—
Redemption of 8.25% Junior Subordinated Debentures	(41,237)	—	—
Return of capital from SVB Capital I	1,237	—	—
Proceeds from issuance of common stock	14,364	9,769	13,363
Repurchase of common stock	(148,092)	(109,394)	(99,851)
Net cash used by financing activities	<u>(11,882)</u>	<u>(73,101)</u>	<u>(86,488)</u>
Net increase (decrease) in cash	40,319	(2,923)	(27,724)
Cash and cash equivalents at January 1,	6,905	9,828	37,552
Cash and cash equivalents at December 31,	<u>\$ 47,224</u>	<u>\$ 6,905</u>	<u>\$ 9,828</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Unaudited Quarterly Financial Data

	2003				2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share amounts)							
Interest income	\$ 50,639	\$ 49,406	\$ 49,751	\$ 52,541	\$ 54,385	\$ 53,711	\$ 52,510	\$ 51,978
Interest expense	2,661	2,706	3,477	4,609	5,383	4,638	4,324	3,531
Net interest income	47,978	46,700	46,274	47,932	49,002	49,073	48,186	48,447
Provision for loan losses	3,384	1,162	(7,449)	(3,320)	3,426	(3,207)	2,630	1,033
Noninterest income	17,446	17,505	21,340	18,769	16,901	18,854	16,263	15,840
Noninterest expense	50,108	67,203	48,804	96,572	43,318	49,018	46,098	47,940
Minority interest	3,479	2,765	7	1,438	1,840	1,397	2,300	2,230
Income (loss) before income tax expense	15,411	(1,395)	26,266	(25,113)	20,999	23,513	18,021	17,544
Income tax expense (benefit)	4,993	(819)	8,837	(9,819)	7,639	8,528	4,925	5,627
Net income (loss)	<u>\$ 10,418</u>	<u>\$ (576)</u>	<u>\$ 17,429</u>	<u>\$ (15,294)</u>	<u>\$ 13,360</u>	<u>\$ 14,985</u>	<u>\$ 13,096</u>	<u>\$ 11,917</u>
Earnings (loss) per common share— basic	\$ 0.27	\$ (0.02)	\$ 0.51	\$ (0.44)	\$ 0.30	\$ 0.33	\$ 0.30	\$ 0.29
Earnings (loss) per common share—diluted	\$ 0.26	\$ (0.02)	\$ 0.49	\$ (0.42)	\$ 0.29	\$ 0.32	\$ 0.29	\$ 0.28

27. Subsequent Event

On January 29, 2004, the Board approved and adopted the Company's Amended and Restated Bylaws and Amended and Restated Rights Plan. Changes to the Bylaws included increasing the range for the authorized number of directors from 8 to 12 and clarifying certain procedural requirements for stockholders to propose matters to be acted on at an annual or special meeting. Changes to the rights plan included removing certain limitations on the ability of the Company's board of directors to amend the Amended and Restated Rights Plan; extending the term of the Amended and Restated Rights Plan from October 22, 2008 to January 31, 2014; and updating the exercise price of the Rights from \$60 to \$100. The foregoing summary of changes implemented by the Amended and Restated Bylaws and the Amended and Restated Rights Plan is a general description only and is subject to the detailed terms and conditions of the Amended and Restated Bylaws and the Amended and Restated Rights Plan. A copy of the Amended and Restated Bylaws is attached as Exhibit 3.3 to this annual report on Form 10-K and is incorporated herein by reference. A copy of the Amended and Restated Rights Plan attached as Exhibit 4.20 to the Company's amended and restated registration statement on Form 8-A/A, filed with the Securities and Exchange Commission on February 27, 2004 and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the sections titled “Proposal No. 1 Election of Directors,” “Information on Executive Officers,” “Board Committees and Meeting Attendance,” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in the definitive proxy statement for Silicon Valley Bancshares’ 2004 Annual Meeting of Stockholders is incorporated herein by reference.

Code of Ethics

The Company has a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. A copy of this Code of Ethics is available on the Company’s website at www.svb.com and is filed as an exhibit to this annual report on Form 10-K. The Company intends to disclose any changes in or waivers from its code of ethics by posting such information on its website.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the sections titled “Information on Executive Officers,” “Report of the Compensation Committee of the Board on Executive Compensation,” “Table 1. Summary Compensation Table,” “Table 2. Option Grants in Last Fiscal Year,” “Table 3. Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values,” “Termination Arrangements,” “Return to Stockholders Performance Graph,” and “Director Compensation” contained in the definitive proxy statement for Silicon Valley Bancshares’ 2004 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the sections titled “Security Ownership of Directors and Executive Officers” and “Security Ownership of Principal Stockholders” contained in the definitive proxy statement for Silicon Valley Bancshares’ 2004 Annual Meeting of Stockholders is incorporated herein by reference.

Our stockholders have approved each of our active equity compensation plans. The following table provides certain information as of December 31, 2003 with respect to our equity compensation plans:

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options</u>	<u>Weighted-average exercise price of outstanding options</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column two)</u>
Equity compensation plans approved by shareholders	6,659,967	\$ 24.58	1,110,729
Equity compensation plans not approved by shareholders	n/a	n/a	n/a
TOTAL	<u>6,659,967</u>	<u>\$ 24.58</u>	<u>1,110,729</u>

For additional information concerning our equity compensation plans, refer to “Item 8. Consolidated Financial Statements and Supplementary Data—Note 18 to the Consolidated Financial Statements—Employee Benefit Plans.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the section titled “Certain Relationships and Related Transactions” in the definitive proxy statement for Silicon Valley Bancshares’ Annual Meeting of Stockholders to be held on April 22, 2004 is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the section titled “Principal Audit Fees and Services” contained in the definitive proxy statement for Silicon Valley Bancshares’ 2004 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. and 2.

Financial Statements:

Report of Independent Auditors	54
Consolidated Balance Sheets as of December 31, 2003 and 2002	55
Consolidated Statements of Income and Comprehensive Income for the three years ended December 31, 2003	56
Consolidated Statement of Changes in Stockholders’ Equity for the three years ended December 31, 2003	58
Consolidated Statements of Cash Flows for the three years ended December 31, 2003	59
Notes to Consolidated Financial Statements	60

The consolidated financial statements and supplementary data contained in Item 8 of this report are filed as part of this report. All schedules other than as set forth above are omitted because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements or related notes.

3.

Exhibits are listed in the Index to Exhibits beginning on page 107 of this report. Each management contract or compensatory plan or arrangement filed as an exhibit to this Report is identified in the “Index to Exhibits” with an asterisk before the exhibit number.

(b) Reports on Form 8-K.

1. On October 16, 2003, Silicon Valley Bancshares furnished to the SEC a Report on Form 8-K in connection with its announcement of financial results for the quarter ended September 30, 2003.
2. On October 30, 2003, Silicon Valley Bancshares filed with the SEC a Report on Form 8-K, in order to file the final definitive agreements the Company entered into in connection with SVB Capital II's issuance of 7.0% Trust Preferred Securities. The Company and SVB Capital II originally filed forms of these agreements with the Securities and Exchange Commission as exhibits to their registration statement on Form S-3 on September 30, 2003 and amended registration statement on Form S-3/A on October 21, 2003.

105

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Silicon Valley Bancshares

By: /s/ KENNETH P. WILCOX
Kenneth P. Wilcox
President and Chief Executive Officer

Dated: March 10, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ ALEX W. HART</u> Alex W. Hart	Chairman of the Board of Directors and Director	March 10, 2004
<u>/s/ KENNETH P. WILCOX</u> Kenneth P. Wilcox	President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2004
<u>/s/ MARC VERISSIMO</u> Marc Verissimo	Chief Financial Officer (Principal Financial Officer)	March 10, 2004
<u>/s/ DONAL D. DELANEY</u> Donal D. Delaney	Controller (Principal Accounting Officer)	March 10, 2004
<u>/s/ GARY K. BARR</u> Gary K. Barr	Director	March 10, 2004
<u>/s/ JAMES F. BURNS, JR.</u> James F. Burns, Jr.	Director	March 10, 2004
<u>/s/ PETER D. GOODSON</u> Peter D. Goodson	Director	March 10, 2004
<u>/s/ G. FELDA HARDYMON</u> G. Felda Hardymon	Director	March 10, 2004
<u>/s/ STEPHEN E. JACKSON</u> Stephen E. Jackson	Director	March 10, 2004
<u>/s/ JAMES R. PORTER</u> James R. Porter	Director	March 10, 2004
<u>/s/ MICHAELA K. RODENO</u> Michaela K. Rodeno	Director	March 10, 2004
<u>/s/ LARRY W. SONSINI</u> Larry W. Sonsini	Director	March 10, 2004

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Asset Purchase Agreement between the registrant and Alliant Partners	8-K	000-15637	2.1	October 2, 2001	
3.1	Certificate of Incorporation	8-K	000-15637	3.1	April 26, 1999	
3.2	Certificate of Amendment to Certificate of Incorporation	10-Q	000-15637	3.1	May 13, 2003	
3.3	Amended and Restated Bylaws					X
3.4	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	Subordinated Indenture, dated as of May 22, 1998, between the Company and Wilmington Trust Company, as trustee	10-Q	000-15637	4.1	August 13, 1998	
4.2	Form of Junior Subordinated Debenture	10-Q	000-15637	4.2	August 13, 1998	
4.3	Amended and Restated Trust Agreement, dated as of May 22, 1998, among the Company, as depositor, Wilmington Trust Company, as property trustee, Wilmington Trust Company, as administrative trustee and Barbara Kamm, Christopher T. Lutes and David Jacques, as administrative trustees	10-Q	000-15637	4.6	August 13, 1998	
4.4	Form of Trust Preferred Certificate of SVB Capital I	10-Q	000-15637	4.6	August 13, 1998	
4.5	Guarantee Agreement, dated as of May 22, 1998, between the Company and Wilmington Trust Company	10-Q	000-15637	4.8	August 13, 1998	
4.6	Agreement as to Expenses and Liabilities, dated as of May 22, 1998, between the Company and SVB Capital I	10-Q	000-15637	4.9	August 13, 1998	
4.7	Form of Common Securities Certificate of SVB Capital I	10-Q	000-15637	4.10	August 13, 1998	
4.8	Officer's Certificate and Company Order, dated as of May 22, 1998	10-Q	000-15637	4.11	August 13, 1998	
4.9	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	
4.10	Form of Note (included in Exhibit 4.9)	S-3	333-107994	4.2	August 14, 2003	
4.11	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	
4.12	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	
4.13	Junior Subordinated Deferrable Debenture due October 15, 2033 of Silicon Valley Bancshares	8-K	000-15637	4.13	November 19, 2003	
4.14	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	

4.15	Certificate Evidencing 7% Cumulative Trust Preferred Securities of SVB Capital II	8-K	000-15637	4.15	November 19, 2003
4.16	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
4.17	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
4.18	Certificate Evidencing 7% Common Securities of SVB Capital II	8-K	000-15637	4.18	November 19, 2003
4.19	Silicon Valley Bancshares Officers' Certificate and Company Order, dated October 30, 2003	8-K	000-15637	4.19	November 19, 2003
4.20	Preferred Shares Rights Agreement dated as of January 29, 2004, between Silicon Valley Bancshares and Norwest Bank Minnesota, N.A.	8-A/A	000-15637	4.22	February 27, 2004
10.17	Lease Agreement Between Silicon Valley Bancshares and WRC Properties, Inc.; 3003 Tasman Drive, Santa Clara, CA 95054	10-K	000-15637	10.17	March 1994
10.17a	First Amendment dated June 10, 1997 to lease identified in Exhibit 10.17	10-Q	000-15637	10.17(a)	August 13, 1997
*10.28	Amended and Restated Silicon Valley Bancshares 1989 Stock Option Plan	10-Q	000-15637	10.28	August 13, 1996
*10.29	Silicon Valley Bank Money Purchase Pension Plan	10-Q	000-15637	10.29	August 13, 1996
*10.30	Amendment and Restatement of the Silicon Valley Bank Money Purchase Pension Plan	10-Q	000-15637	10.30	August 13, 1996
*10.31	Amendment and Restatement of Silicon Valley Bank 401(k) and Employee Stock Ownership Plan	10-Q	000-15637	10.31	August 13, 1996
*10.33	Form of Change in Control Severance Benefits Policy for Non-Executives	10-Q	000-15637	10.33	November 13, 1996
*10.39	The 1998 Venture Capital Retention Program, as amended June 18, 1998	10-Q	000-15637	10.39	August 13, 1998
*10.40	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
*10.41	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
*10.44	1999 Employee Stock Purchase Plan	10-K	000-15637	10.44	March 17, 2000
*10.45	Silicon Valley Bancshares 1998 Equity Incentive Plan, amended as of July 20, 2000	10-Q	000-15637	10.45	November 14, 2000
*10.46	Change in Control Severance Benefits Policy of Silicon Valley Bank	10-Q	000-15637	10.46	November 14, 2000
*10.47	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
*10.49	Silicon Valley Bancshares 1997 Equity Incentive Plan, as amended as of April 17, 2003	S-8	333-108434	99.1	September 2, 2003

*10.50	Form of Indemnity Agreement between the Company and its directors and officers	10-Q	000-15637	10.50	November 14, 2003	
*10.51	Form of Severance Agreement between the Company and Lauren Friedman	10-Q	000-15637	10.51	November 14, 2003	
*10.52	Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated August 4, 2000					X
*10.53	Bonus Agreement Between Silicon Valley Bank and Marc Verissimo dated September 20, 2000					X
*10.54	Promissory Note Between Silicon Valley Bancshares and Ken Wilcox dated April 4, 2002					X
*10.55	Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated April 2, 2002					X
*10.56	Promissory Note Between Silicon Valley Bancshares and Greg Becker dated May 6, 2002					X
*10.57	Promissory Note Between Silicon Valley Bancshares and Greg Becker dated January 16, 2003					X
*10.58	Silicon Valley Bancshares Senior Management Incentive Compensation Plan					X
*10.59	Separation Agreement Between Silicon Valley Bank and Leilani Gayles Dated July 16, 2003					X
14.1	Code of Ethics					X
21.1	Subsidiaries of Silicon Valley Bancshares					X
23.1	Consent of Independent Auditors					X
31.1	Section 302 Certification of Principal Executive Officer					X
31.2	Section 302 Certification of Principal Financial Officer					X
32.1	Section 906 Certifications					X

**Amended and Restated Bylaws of
SILICON VALLEY BANCSHARES, INC.
A Delaware Corporation**

(As amended on January 29, 2004 and February 15, 2004)

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of Silicon Valley Bancshares, Inc. (the “Corporation”) in the State of Delaware shall be at 1013 Centre Road, in the City of Wilmington, County of New Castle, 19805. The name of the Corporation’s registered agent at that address is Corporation Service Company.

Section 2. Principle Executive Office. The principle executive office of the Corporation shall be located at such place within or outside of the State of Delaware as the Board of Directors of the Corporation (“Board of Directors”) from time to time shall designate.

Section 3. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware as shall be designated from time to time by the Board of Directors. The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the “DGCL”). In the absence of any such designation or determination, stockholders’ meetings shall be held at the Corporation’s principal executive office.

Section 2. Annual Meetings. The Annual Meeting of stockholders shall be held each year on such date and at such place and time as may be fixed by resolution of the Board of Directors.

Section 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, and subject to the rights of the holders of any series of preferred stock of the Corporation, Special Meetings of stockholders may be called by a majority of the Board of Directors, the Chairman of the Board or by the President. Any Special Meeting of stockholders shall be held on such date and at such place and time as may be fixed by resolution of the Board of Directors.

Section 4. Notice of Meetings; Waiver of Notice. Written or printed notice, stating the place, if any, date and hour of the meeting, the purpose or purposes for which the meeting is called, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, shall be given by the Corporation not less than ten nor more than sixty days before the date of the meeting, either personally, by mail or by electronic transmission in accordance with Section 2 of Article VI of these Bylaws, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation. Only such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote thereat are present, or if notice is waived by those not present in accordance with Section 3 of Article VI of these Bylaws. Any previously scheduled meeting of the stockholders may be postponed, and (unless the Certificate of Incorporation otherwise provides) any Special Meeting of the stockholders may be cancelled, by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

Section 5. Nominations and Proposals. Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at any Annual Meeting of stockholders only (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in these bylaws, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 5.

For nominations or other business to be properly brought before an Annual Meeting of stockholders by a stockholder pursuant to clause (c) of the preceding sentence, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business (a) must otherwise be a proper matter for stockholder action under applicable law, (b) must not, if implemented, cause the Corporation to violate any state, federal or foreign law or regulation, each as determined in good faith by the Board of Directors and (c) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the Corporation with a Solicitation Notice (as defined below), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination(s), have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such stockholder or beneficial holder to be sufficient to elect the nominee(s) proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice; and (d) if no Solicitation Notice relating thereto has been timely provided pursuant to this Section 5, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section. No person may be appointed, nominated or elected a director of the Corporation unless such person, as of the time of the notice of nomination provided for pursuant to this Section 5 and as of the time of appointment or election, would then be able to serve as a director without conflicting in any

manner with any state, federal or foreign law or regulation, as determined in good faith by the Board of Directors.

To be timely, a stockholder's notice shall be delivered to and received by the Secretary at the principal executive offices of the Corporation (a) not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting, or (b) not later than the close of business on the 45th calendar day, nor earlier than the close of business on the 75th calendar day, prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting, whichever period described in clause (a) or (b) of this sentence occurs first; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after the anniversary of the preceding year's annual meeting, any notice by the stockholder of business or the nomination of directors for election or reelection to be brought before the annual meeting to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made; provided, further, that in the event the number of directors constituting the entire Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 70 days prior to the first anniversary of the date on which the Corporation first mailed to stockholders notice of the preceding year's annual meeting, a stockholder's notice required under this Section 5 shall also be considered timely, but only with respect to nominees for new directorships created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of a stockholder meeting commence a new time period for the giving of a stockholder's notice as described above.

Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (or any successor thereto) (the "Exchange Act") and Rule 14a-11 thereunder (or any successor thereto) (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (ii) a written statement executed by such person acknowledging that as a director of the Corporation, such person will owe a fiduciary duty under the DGCL exclusively to the Corporation and its stockholders and (iii) such other information as the Corporation may reasonably require to determine the qualifications of such proposed nominee to serve as a director of the Corporation, (b) as to each person whom the stockholder proposes to nominate for election or reelection as a director, a certification by such stockholder and such nominee that such nominee is eligible to serve as a director in accordance with this Section 5 as of the date of the notice of nomination and will be eligible to serve as a director in accordance with this Section 5 as of the time of the election, (c) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the

meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (d) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address, as they appear on the Corporation's books, of the stockholder, such beneficial owner, and any other stockholders and beneficial owners known by such stockholder or such beneficial owner to be supporting such proposed business or nominees, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination(s), a sufficient number of holders of the Corporation's voting shares to elect such nominee(s) (an affirmative statement of such intent, a "Solicitation Notice") and (iv) a copy of any such Solicitation Notice.

For purposes of this Section 5, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

At a Special Meeting of stockholders, only such business as is set forth in the Corporation's notice of meeting shall be conducted at the meeting. Nominations of persons for election to the Board of Directors may be made at a Special Meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this paragraph and who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this paragraph. In the event the Corporation calls a Special Meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by the forth paragraph of this Section 5 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such Special Meeting and not later than the close of business on the later of the 90th day prior to such Special Meeting or the 10th day following the day on which public announcement is first made of the date of the Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a Special Meeting commence a new time period for the giving of a stockholder's notice.

Notwithstanding any provision herein to the contrary, (a) no business shall be conducted at a stockholders meeting except in accordance with the procedures set forth in this Section 5 and (b) only persons nominated in accordance with the procedures set forth in this Section 5, and who meet the eligibility requirements set forth in this Section 5, shall be eligible for election as directors. The officer of the Corporation presiding at a meeting of stockholders shall, if the facts warrant, determine that the business or the nomination, as the case may be, was not properly brought before the meeting in accordance with the procedures prescribed by these Bylaws and, if he should so determine, he shall so declare to the meeting and any such business

not properly brought before the meeting shall not be transacted and any such nomination shall not stand for election or reelection.

Notwithstanding the foregoing provisions of this Section 5, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 5. Nothing in this Section 5 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 6. Quorum; Adjournment . Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. The officer of the Corporation presiding at a meeting of stockholders may adjourn any meeting of stockholders from time to time, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given except as required by law. Any business which might have been transacted at the meeting as originally noticed may be deferred and transacted at any such adjourned meeting at which a quorum shall be present. The stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 7. Voting. Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder. Such votes may be cast in person or by proxy but no proxy shall be valid more than 11 months after its date, unless such proxy provides for a longer period. A stockholder may authorize another person to act as proxy by transmitting, or authorizing the transmission of, a telegram, cablegram or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission, in each case as the Board of Directors, the Chairman of the Board of Directors or the presiding officer of the meeting may determine from time to time.

Section 8. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting, either (i) during ordinary business hours at the principal place of business of the Corporation, (ii) on a reasonably accessible electronic network, provided that

the information required to gain access to such list is provided with the notice of meeting or (iii) at such other place as may be permitted by law and the Certificate of Incorporation. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 9. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 8 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 10. Stockholder Action. Any action required or permitted to be taken by the stockholders of the Corporation may be authorized or taken by the written consent of the holders of outstanding shares of stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and the Certificate of Incorporation have been satisfied.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within 10 days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within 10 days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or to any officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

In the event of the delivery, in the manner provided in this Section 10, to the Corporation of the requisite written consent or consents to take corporate action and/or any related revocation or revocations, the Corporation may engage nationally recognized

independent inspectors of elections for the purpose of promptly performing a ministerial review of the validity of the consents and revocations. For the purpose of permitting the inspectors to perform such review, no action by written consent without a meeting shall be effective until such date as the independent inspectors certify to the Corporation that the consents delivered to the Corporation in accordance with this Section 10 represent at least the minimum number of votes that would be necessary to authorize or take the corporate action. Nothing contained in this paragraph shall in any way be construed to suggest or imply that the Board of Directors or any stockholder shall not be entitled to contest the validity of any consent or revocation thereof, whether before or after such certification by the independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated written consent received in accordance with this Section 10, a written consent or consents signed by a sufficient number of holders to authorize or take such action are delivered to the Corporation in the manner prescribed in this Section 10.

Section 11. Conduct of Voting. At all meetings of stockholders, unless the voting is conducted by inspectors, the proxies and ballots shall be received, and all questions relating to the qualification of voters, the validity of proxies and the acceptance or rejection of votes shall be decided, in accordance with such procedures as shall from time to time be determined by the officer of the Corporation presiding at the meeting of stockholders. If ordered by the presiding officer or required by law, the vote upon any election or question shall be taken by written ballot. Unless so ordered or required, no vote need be by written ballot.

The officer of the Corporation presiding at a meeting of stockholders shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at such meeting.

The Board of Directors shall appoint one or more inspectors, which inspector or inspectors may be individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the officer of the Corporation presiding at a meeting of stockholders shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

ARTICLE III

DIRECTORS

Section 1. Number and Election of Directors. Subject to the rights of the holders of any series of preferred stock of the Corporation to elect directors under specified circumstances, the Board of Directors shall consist of at least eight (8), but no more than twelve (12), members. The exact number of authorized directors shall be fixed by the Board of Directors.

The Board shall consist of no more than two inside directors who do not meet the definition of “Outside Directors”. An “Outside Director” is any director of the Corporation or its subsidiaries, which, in the opinion of the Board, would not interfere with the exercise of independent judgment in carrying out the responsibilities of a Director, and which meets the independence and experience requirements of the Securities and Exchange Commission (“SEC”) and the Nasdaq National Market (“Nasdaq”) applicable to independent directors as in effect from time to time when and as required by SEC and Nasdaq.

Subject to the Certificate of Incorporation, and Section 2 of this Article and the rights of the holders of any series of preferred stock of the Corporation to elect directors under specified circumstances, directors shall be elected by a plurality of the votes cast at Annual Meetings of stockholders, and each director so elected shall hold office until the next Annual Meeting and until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal. Notwithstanding the foregoing, Outside Directors shall be eligible to serve a maximum of six consecutive one-year terms (the “Outside Director Term Limit”). An Outside Director who has (a) reached the Outside Director Term Limit or (b) served on the Board for a period less than the Outside Director Term Limit, but who has resigned from the Board, shall be eligible to stand for election one year from the date their last term on the Board ended.

During this one year waiting period, the director may serve as an advisory director to the Board. An Outside Director who is re-elected to the Board shall be subject to a new Outside Director Term Limit. If an Outside Director is not elected at an annual meeting of stockholders, but instead begins his/her term after an annual meeting of stockholders, such partial term period shall not be used in determining the Outside Director Term Limit.

Any director may resign at any time upon notice to the Corporation in writing or by electronic transmission. Directors need not be stockholders.

Section 2. Removal. Subject to applicable law and the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote generally in the election of directors; provided, however, that if less than the entire Board of Directors is to be removed, no director may be removed without cause if the votes cast against such director’s removal would be sufficient to elect such director if then cumulatively voted at an election of the entire Board of Directors.

Section 3. Vacancies. Subject to applicable law and the rights of the holders of any series of preferred stock with respect to such series of preferred stock, and unless the Board of Directors otherwise determines, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors (or the sole remaining director), though less than a quorum of the Board of Directors, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified, or his or her earlier death, resignation or removal. Subject to the Certificate of Incorporation, no decrease in the authorized number of directors constituting the entire Board of Directors shall shorten the term of any incumbent director.

Section 4. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 5. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President, or a majority of the entire Board of Directors then in office. Notice of such special meeting stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone, hand, courier, facsimile, electronic mail or telegram on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in accordance with Section 3 of Article VI of these Bylaws.

Section 6. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the entire Board of Directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. Notwithstanding the withdrawal of enough directors to leave less than a quorum, the directors present at a duly organized meeting may continue to transact business until adjournment.

Section 7. Actions of Board. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the

members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 8 shall constitute presence in person at such meeting.

Section 9. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 10. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

OFFICERS

Section 1. General . The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a Chairman of the Board of Directors (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors, need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier death, resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors or by such persons as the Board of Directors delegates.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any Corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman of the Board of Directors. The Chairman of the Board of Directors, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board of Directors shall possess the same power as the President to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. During the absence or disability of the President, the Chairman of the Board of Directors shall exercise all the powers and discharge all the duties of the President. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 5. President. The President shall, subject to the control of the Board of Directors and, if there be one, the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these Bylaws, the Board of Directors or the President. In the absence or disability of the Chairman of the Board of Directors, or if there be none, the President shall preside at all meetings of the stockholders and the Board of Directors. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors.

Section 6. Vice Presidents . At the request of the President or in his or her absence or in the event of his or her inability or refusal to act (and if there be no Chairman of the

Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors or the President) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Chairman of the Board of Directors and no President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

Section 7. Secretary . The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. If the Secretary shall be unable or shall refuse to attend and record the proceedings of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be. Such books, reports, statements, certificates and other documents and records may be kept within or without the State of Delaware as the Board of Directors may from time to time determine.

Section 8. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 9. Assistant Secretaries. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 10. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 11. Other Officers . Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

STOCK

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Section 2. Signatures. Where a certificate is countersigned by (i) a transfer agent other than the Corporation or its employee, or (ii) a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a

new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his or her attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. Except to the extent otherwise required by law, a determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may in its discretion fix a new record date for the adjourned meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI

NOTICES

Section 1. Notices . Whenever written notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any stockholder, such notice may be given (i) by mail, addressed to such stockholder, at his or her address as it appears on the records of the Corporation, with postage thereon prepaid or (ii) except as provided in the DGCL, by electronic transmission in accordance with Section 2 of this Article VI. If given by mail, such notice shall be deemed delivered at the time when the same shall be deposited in the United States mail.

Section 2. Notices by Electronic Transmission. Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the law, the Certificate of Incorporation or these Bylaws, any notice to stockholders given by the Corporation under any law, the Certificate of Incorporation or these Bylaws shall be effective if given by a

form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if:

(i) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

- (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;
- (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;
- (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and
- (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the Corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

For the purpose of these Bylaws, an “electronic transmission” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Section 3. Waivers of Notice. Whenever notice is required to be given by law, the Certificate of Incorporation or these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements . All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the word "Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII

INDEMNIFICATION

Section 1. Indemnification of Directors and Officers . Each person who was or is made a party or is threatened to be made a party to or is involved in any, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the Corporation (or any predecessor) or is or was serving at the request of the Corporation (or any predecessor) as a director, officer, employee or agent of another Corporation or of a partnership, joint venture, trust or other enterprise (or any predecessor of any of such entities), including service with respect to employee benefit plans maintained or sponsored by the Corporation (or any predecessor), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall

continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 2 of this Article VIII, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors. The right to indemnification conferred in this Article VIII shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the Corporation within 20 days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this bylaw or otherwise.

Section 2. Claims . To obtain indemnification under this Article VIII, a claimant shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the preceding sentence, a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (a) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (b) if no request is made by the claimant for a determination by Independent Counsel, (i) by the board of directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) if a quorum of the board of directors consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the board of directors, a copy of which shall be delivered to the claimant, or (iii) if a quorum of Disinterested Directors so directs, by the stockholders of the Corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the board of directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a "Change in Control" as defined below, in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the board of directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

If a claim for indemnification under this Article VIII is not paid in full by the Corporation within thirty days after a written claim pursuant to the preceding paragraph of this Section 2 has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a

defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its board of directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

If a determination shall have been made pursuant to this Section 2 that the claimant is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to the preceding paragraph of this Section 2. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to the second paragraph of this Section 2 that the procedures and presumptions of this Article VIII are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this Article VIII. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article VIII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the certificate of incorporation, bylaws, agreement, vote of stockholders or Disinterested Directors or otherwise. No repeal or modification of this Article VIII shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the Corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

Section 3. Construction . If any provision or provisions of this Article VIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article VIII (including, without limitation, each portion of any paragraph of this Article VIII containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article VIII (including, without limitation, each such portion of any paragraph of this Article VIII containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect

Section 4. Indemnification of Others. The Corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the Corporation. For purposes of this Section 4, an "employee" or "agent" of the Corporation (other than a director or officer) includes any person (a) who is or

was an employee or agent of the Corporation, (b) who is or was serving at the request of the Corporation as an employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, or (c) who was an employee or agent of a Corporation which was a predecessor Corporation of the Corporation or of another enterprise at the request of such predecessor Corporation.

Section 5. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of Delaware.

Section 6. Miscellaneous. For purposes of this Article VIII:

“Change in Control” means the consummation of any of the following transactions:

- (1) a merger or consolidation of Silicon Valley Bank (the “Bank”) or the Corporation with any other corporation, other than a merger or consolidation which would result in beneficial owners of the total voting power in the election of directors represented by the voting securities (“Voting Securities”) of the Bank or the Corporation (as the case may be) outstanding immediately prior thereto continuing to beneficially own securities representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total Voting Securities of the Bank or the Corporation, or of such surviving entity, outstanding immediately after such merger or consolidation;
- (2) the filing of a plan of liquidation or dissolution of the Bank or the closing of the sale, lease, exchange or other transfer or disposition by the Bank or the Corporation of all or substantially all of the Corporation’s assets;
- (3) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan of the Bank or the Corporation, (B) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their beneficial ownership of stock in the Corporation, or (C) the Corporation (with respect to the Corporation’s ownership of the stock of Bank), is or becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the securities of the Bank or the Corporation representing 50% or more of the Voting Securities; or
- (4) any person (as such term is used in Sections 13(d) or 14(d) of the

Exchange Act), other than (a) a trustee or other fiduciary holding securities under an employee benefit plan of the Bank or the Corporation, (b) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of stock in the Corporation, or (c) the Corporation (with respect to the Corporation's ownership of the stock of the Bank) is or becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the securities of the Bank or the Corporation representing 25% or more of the Voting Securities of such corporation, and within twelve (12) months of the occurrence of such event, a change in the composition of the Board of Directors of the Corporation occurs as a result of which sixty percent (60%) or fewer of the directors are Incumbent Directors.

"Disinterested Director" means a director of the Corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

"Independent Counsel" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the Corporation or the claimant in an action to determine the claimant's rights under this Article VIII.

Any notice, request or other communication required or permitted to be given to the Corporation under this bylaw shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the secretary of the Corporation and shall be effective only upon receipt by the secretary.

ARTICLE IX

AMENDMENTS

Section 1. Authority to Amend. These Bylaws may be altered, amended or repealed, in whole or in part, or new Bylaws may be adopted by the stockholders or by the Board of Directors; provided, however, that notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such meeting of stockholders or Board of Directors, as the case may be. All such amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors then in office. Notwithstanding the foregoing, any alteration, amendment or repeal of, and the adoption of any new Bylaws inconsistent with, all or any portion of Article II hereof, Section 1 or 3 of Article III hereof, Article VIII hereof or this Article IX by the stockholders of the Corporation shall require the affirmative vote of at least 66 2/3% of the outstanding shares entitled to vote thereon.

Section 2. Entire Board of Directors. As used in this Article IX and in these Bylaws generally, the term "entire Board of Directors" means the total number of directors which the Corporation would have if there were no vacancies.

PROMISSORY NOTE

Principal Amount: \$500,000.00

Date of Note: August 4, 2000

PROMISE TO PAY. Marc Verissimo ("Borrower") promises to pay to Silicon Valley Bancshares ("Lender"), or order, in lawful money of the United States of America, the principal amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00) in accordance with the terms of this Promissory Note.

PAYMENT. Borrower will pay this Promissory Note \$500,000.00 in full on March 1, 2006 (the "Maturity Date").

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due.

TERMINATION. If Borrower resigns or is involuntarily terminated from his employment with Silicon Valley Bank ("Bank") before March 1, 2006 for any reason except death, or an Involuntary Termination or Constructive Termination following a Change in Control (all as defined and further described in the Change and Control Severance Benefit Policy) than this Promissory Note shall be immediately due and payable. If (a) Borrower's employment terminates by Borrower's death before this Promissory Note is repaid, or (b) Borrower's employment terminates by an Involuntary Termination or Constructive Termination following a Change in Control, then this Promissory Note shall be due and payable on the Maturity Date.

CHOICE OF LAW. This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflicts of law.

Borrower understands and agrees that this agreement is a Promissory Note, not an employment agreement or contract. Borrower also understands that by virtue of Borrower's position with the Bank, Lender has agreed to make this loan to Borrower on terms that may be deemed preferential in nature.

BORROWER:

/s/ Marc Verissimo

Marc Verissimo

Date: August 14, 2000

LENDER:

SILICON VALLEY BANCSHARES

By: /s/ Chris Lutes

Date: August 14, 2000

Name: Chris Lutes

Title: CFO

BONUS AGREEMENT

Silicon Valley Bank ("Bank") agrees to pay a \$15,750.00 bonus to Marc Verissimo ("Verissimo") each April 15th starting April 15, 2001 and ending April 15, 2006 to cover taxes on imputed interest in connection with an employee loan.

If Verissimo resigns or is involuntarily terminated from his employment with Bank before March 1, 2006 for any reason except death, or an Involuntary Termination or Constructive Termination following a Change in Control (all as defined and further described in the Change and Control Severance Benefit Policy) than the Bank shall not make any further bonus payments under this Agreement. If (a) Verissimo's employment terminates by his death prior to March 1, 2006, or (b) Verissimo's employment terminates by an Involuntary Termination or Constructive Termination following a Change in Control, then all bonus payments under this agreement will continue through April 15, 2006.

This Agreement is an agreement by the Bank to pay a bonus; it is not an employment agreement or contract.

Silicon Valley Bank

/s/ Chris Lutes
Signature

CFO Chris Lutes
Name and Title

9/20/00
Date

/s/ Marc Verissimo
Marc Verissimo

9/20/00
Date

Exhibit 10.54

PROMISSORY NOTE

Borrower: Kenneth P. Wilcox
Ruth L. Wilcox
2 Applewood Lane
Portola Valley, CA 94028

Lender: Silicon Valley Bancshares
3003 Tasman Drive
Santa Clara, CA 95054

Principal Amount: \$1,400,000.00

Interest Rate: 4.770%

Date of Note: April 4, 2002

PROMISE TO PAY. I promise to pay to Silicon Valley Bancshares ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Million Four Hundred Thousand & 00/100 Dollars (\$1,400,000.00), together with interest at the rate of 4.770% per annum on the unpaid principal balance from April 9, 2002, until paid in full. The interest rate will not increase above 25.000%.

PAYMENT. I will pay this loan in 59 regular payments of \$7,312.22 each and one irregular last payment estimated at \$1,287,309.97. My first payment is due May 1, 2002, and all subsequent payments are due on the same day of each month after that. My final payment due April 1, 2007, will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Interest on this Note is computed on a 30/360 simple interest basis; that is, with the exception of odd days in the first payment period, monthly interest is calculated by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by a month of 30 days. Interest for the odd days is calculated on the basis of the actual days to the next full month and a 360-day year. I will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

PREPAYMENT. I agree that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, I may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve me of my obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in me making fewer payments.

DEFAULT. I will be in default if any of the following happens: (a) I fail to make any payment when due. (b) I break any promise I have made to Lender, or I fail to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan I have with Lender. (c) Any representation or statement made or furnished to Lender by me or on my behalf is false or misleading in any material respect either now or at the time made or furnished. (d) I die or become insolvent, a receiver is appointed for any part of my property, I make an assignment for the benefit of creditors, or any proceeding is commenced either by me or against me under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of my property on or in which Lender has a lien or security interest. This includes a garnishment of any of my accounts with Lender. (f) Any of the events described in this default section occurs with respect to any guarantor of this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then I will pay that amount. Upon my failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this Note 5.000 percentage points. Lender may hire or pay someone else to help collect this Note if I do not pay. I also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is

a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. I also will pay any court costs, in addition to all other sums provided by law. **This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, I agree upon Lender's request to submit to the jurisdiction of the courts of Santa Clara County, the State of California. This Note shall be governed by and construed in accordance with the laws of the State of California.**

COLLATERAL. I acknowledge this Note is secured by a Deed of Trust dated April 4, 2002, to a trustee in favor of Lender on real property located in San Mateo County, State of California. That agreement contains the following due on sale provision: Lender may, at its option, declare immediately due and payable all sums secured by this Note upon the sale or transfer, without the Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease-option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

NOTE RATE. The interest rate on this Note is 4.77% (the "Rate"). In the event Kenneth P. Wilcox's employment with Silicon Valley Bank terminates, I acknowledge and agree that the interest rate shall increase to a fixed rate of 6.50% per annum (the "Note Rate") for the remainder of the Note term. In the event the Rate is increased to the Note Rate, my payments will increase to \$8,836.24 beginning with the month following the termination of employment and my annual percentage rate shall be 6.518%. Additionally, my last payment shall also increase.

BALLOON PAYMENT. THIS LOAN IS PAYABLE IN FULL AT MATURITY. YOU MUST THEN REPAY THE ENTIRE PRINCIPAL BALANCE OF THIS LOAN AND ALL UNPAID INTEREST THEN DUE.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. I and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several. This means that the words "I", "me", and "my" mean each and all of the persons signing below.

PRIOR TO SIGNING THIS NOTE, I, AND EACH OF US, READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. I, AND EACH OF US, AGREE TO THE TERMS OF THE NOTE AND ACKNOWLEDGE RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

X /s/ **Kenneth P. Wilcox**
Kenneth P. Wilcox

X /s/ **Ruth L. Wilcox**
Ruth L. Wilcox

Fixed Rate. Balloon.
[CA-D20 WILCOX.LN R5.OVL]

LASER PRO, Reg. U.S. Pat. & T.M. Off., Ver. 3.28 (c) 2002 CFI ProServices, Inc. All rights reserved.

Exhibit 10.55

PROMISSORY NOTE

Borrower: Marc J. Verissimo, Laurel Keddie Verissimo
and The Verissimo Family Trust dated May 1, 1998
1271 Via Huerta
Los Altos, CA 94024

Lender: Silicon Valley Bancshares
3003 Tasman Drive
Santa Clara, CA 95054

Principal Amount: \$1,500,000.00

Interest Rate: 4.770%

Date of Note: April 2, 2002

PROMISE TO PAY. I promise to pay to Silicon Valley Bancshares ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Million Five Hundred Thousand & 00/100 Dollars (\$1,500,000.00), together with interest at the rate of 4.770% per annum on the unpaid principal balance from April 5, 2002, until paid in full. The interest rate will not increase above 25.000%.

PAYMENT. I will pay this loan in 59 regular payments of \$7,838.66 each and one irregular last payment estimated at \$1,379,989.64. My first payment is due May 1, 2002, and all subsequent payments are due on the same day of each month after that. My final payment due April 1, 2007, will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Interest on this Note is computed on a 30/360 simple interest basis; that is, with the exception of odd days in the first payment period, monthly interest is calculated by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by a month of 30 days. Interest for the odd days is calculated on the basis of the actual days to the next full month and a 360-day year. I will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any

unpaid collection costs and late charges.

PREPAYMENT. I agree that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, I may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve me of my obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in me making fewer payments.

DEFAULT. I will be in default if any of the following happens: (a) I fail to make any payment when due. (b) I break any promise I have made to Lender, or I fail to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan I have with Lender. (c) Any representation or statement made or furnished to Lender by me or on my behalf is false or misleading in any material respect either now or at the time made or furnished. (d) I die or become insolvent, a receiver is appointed for any part of my property, I make an assignment for the benefit of creditors, or any proceeding is commenced either by me or against me under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of my property on or in which Lender has a lien or security interest. This includes a garnishment of any of my accounts with Lender. (f) Any of the events described in this default section occurs with respect to any guarantor of this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then I will pay that amount. Upon my failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this Note 5.000 percentage points. Lender may hire or pay someone else to help collect this Note if I do not pay. I also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. I also will pay any court

costs, in addition to all other sums provided by law. **This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, I agree upon Lender's request to submit to the jurisdiction of the courts of Santa Clara County, the State of California. This Note shall be governed by and construed in accordance with the laws of the State of California.**

COLLATERAL. I acknowledge this Note is secured by a Deed of Trust dated April 2, 2002, to a trustee in favor of Lender on real property located in Santa Clara County, State of California. That agreement contains the following due on sale provision: Lender may, at its option, declare immediately due and payable all sums secured by this Note upon the sale or transfer, without the Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease-option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

NOTE RATE. The interest rate on this Note is 4.77%. In the event Marc J. Verissimo's employment with Lender terminates, I acknowledge and agree that the interest rate shall increase to the Note Rate of 6.50% per annum (the "Note Rate") effective as of the first day of the month following such termination of employment. In such case, the monthly payments will increase to \$9,474.21 and my annual percentage rate shall be 6.517%. Additionally, my final payment shall increase accordingly.

BALLOON PAYMENT. THIS LOAN IS PAYABLE IN FULL AT MATURITY. YOU MUST THEN REPAY THE ENTIRE PRINCIPAL BALANCE OF THIS LOAN AND ALL UNPAID INTEREST THEN DUE.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. I and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several. This means that the words "I", "me", and "my" mean each and all of the persons signing below.

PRIOR TO SIGNING THIS NOTE, I, AND EACH OF US, READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. I, AND EACH OF US, AGREE TO THE TERMS OF THE NOTE AND ACKNOWLEDGE RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

X /s/ Marc J. Verissimo

Marc J. Verissimo

X /s/ Laurel Keddie Verissimo

Laurel Keddie Verissimo

By: /s/ Marc J. Verissimo

Marc J. Verissimo, Trustee

By: /s/ Laurel Keddie Verissimo

Laurel Keddie Verissimo, Trustee

Fixed Rate. Balloon. LASER PRO, Reg. U.S. Pat. & T.M. Off., Ver. 3.28 (c) 2002 CFI ProServices, Inc. All rights reserved.
[CA-D20 VERISSIM.LN R5.OVL]

Exhibit 10.56

PROMISSORY NOTE

Borrower: Gregory W. Becker, Michelle A. Becker and
Gregory W. Becker, as Trustee of The Gregory
W. Becker and Michelle A. Becker Revocable
Living Trust dated April 3, 2000
2625 Lincoln Avenue
Belmont, CA 94002

Lender: Silicon Valley Bancshares
3003 Tasman Drive
Santa Clara, CA 95054

Promissory Amount: \$600,000.00

Interest Rate: 4.770%

Date of note: May 6, 2002

PROMISE TO PAY. I promise to pay to Silicon Valley Bancshares ("Lender"), or order, in lawful money of the United States of America, the principal amount of Six Hundred Thousand & 00/100 Dollars (\$600,000.00), together with interest at the rate of 4.770% per annum on the unpaid principal balance from May 6, 2002, until paid in full. The interest rate will not increase above 25.000%.

PAYMENT. I will pay this loan in 59 regular payments of \$3,135.46 each and one irregular last payment estimated at \$551,996.12. My first payment is due June 1, 2002, and all subsequent payments are due on the same day of each month after that. My final payment due May 1, 2007, will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Interest on this Note is computed on a 30/360 simple interest basis; that is, with the exception of odd days in the first payment period, monthly interest is calculated by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by a month of 30 days. Interest for the odd days is calculated on the basis of the actual days to the next full month and a 360-day year. I will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

PREPAYMENT. I agree that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, I may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve me of my obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in me making fewer payments.

DEFAULT. I will be in default if any of the following happens: (a) I fail to make any payment when due. (b) I break any promise I have made to Lender, or I fail to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan I have with Lender. (c) Any representation or statement made or furnished to Lender by me or on my behalf is false or misleading in any material respect either now or at the time made or furnished. (d) I die or become insolvent, a receiver is appointed for any part of my property, I make an assignment for the benefit of creditors, or any proceeding is commenced either by me or against me under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of my property on or in which Lender has a lien or security interest. This includes a garnishment of any of my accounts with Lender. (f) Any of the events described in this default section occurs with respect to any guarantor of this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then I will pay that amount. Upon my failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this Note 5.000 percentage points. Lender may hire or pay someone else to help collect this Note if I do not pay. I also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. I also will pay any court costs, in addition to all other sums provided by law. **This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, I agree upon Lender's request to submit to the**

jurisdiction of the courts of Santa Clara County, the State of California. This Note shall be governed by and construed in accordance with the laws of the State of California.

COLLATERAL. I acknowledge this Note is secured by a Deed of Trust dated May 6, 2002, to a trustee in favor of Lender on real property located in San Mateo County, State of California. That agreement contains the following due on sale provision: Lender may, at its option, declare immediately due and payable all sums secured by this Note upon the sale or transfer, without the Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease-option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

NOTE RATE. The interest rate on this Note is 4.77%. In the event Greg Becker's employment with Lender terminates, I acknowledge and agree that the interest rate shall increase to the Note Rate of 6.75% per annum (the "Note Rate") effective the first day of the month following such termination of employment. In such case the monthly payments will increase to \$3,888.69 and my annual percentage rate shall be 6.793%. Additionally, the last payment shall increase accordingly.

BALLOON PAYMENT. THIS LOAN IS PAYABLE IN FULL AT MATURITY. YOU MUST THEN REPAY THE ENTIRE PRINCIPAL BALANCE OF THIS LOAN AND ALL UNPAID INTEREST THEN DUE.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. I and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several. This means that the words "I", "me", and "my" mean each and all of the persons signing below.

PRIOR TO SIGNING THIS NOTE, I, AND EACH OF US, READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. I, AND EACH OF US, AGREE TO THE TERMS OF THE NOTE AND ACKNOWLEDGE RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

X /s/ Greg W. Becker
Greg W. Becker

X /s/ Michelle A. Becker
Michelle A. Becker

By: /s/ Greg W. Becker
Greg W. Becker, as Trustee of The Gregory W. Becker and Michelle A. Becker Revocable Trust dated April 3, 2000

By: /s/ Michelle A. Becker
Michelle A. Becker, as Trustee of The Gregory W. Becker and Michelle A. Becker Revocable Living Trust dated April 3, 2000

Fixed Rate. Balloon. LASER PRO, Reg. U.S. Pat. & T.M. Off., Ver. 3.28 (c) 2003 CFI ProServices, Inc. All rights reserved.
[CA-D20 BEC.LN R5.OVL]

Exhibit 10.57

PROMISSORY NOTE

Borrower: Gregory W. Becker, Michelle A. Becker and
Gregory W. Becker, as Trustee of The Gregory
W. Becker and Michelle A. Becker Revocable
Living Trust dated April 3, 2000 and Michelle
A. Becker, as Trustee of the Gregory W. Becker
and Michelle A. Becker Revocable Living Trust

Lender: Silicon Valley Bancshares
3003 Tasman Drive
Santa Clara, CA 95054

dated April 3, 2000
25 Sunrise Court
Menlo Park, CA 94025

Promissory Amount: \$1,000,000.00

Interest Rate: 3.450%

Date of note: January 16, 2003

PROMISE TO PAY. I promise to pay to Silicon Valley Bancshares ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Million & 00/100 Dollars (\$1,000,000.00), together with interest at the rate of 3.450% per annum on the unpaid principal balance from January 22, 2003, until paid in full. The interest rate will not increase above 25.000%.

PAYMENT. I will pay this loan in 59 regular payments of \$4,462.58 each and one irregular last payment estimated at \$900,660.95. My first payment is due March 1, 2003, and all subsequent payments are due on the same day of each month after that. My final payment due February 1, 2008, will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Interest on this Note is computed on a 30/360 simple interest basis; that is, with the exception of odd days in the first payment period, monthly interest is calculated by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by a month of 30 days. Interest for the odd days is calculated on the basis of the actual days to the next full month and a 360-day year. I will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

PREPAYMENT. I agree that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, I may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve me of my obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in me making fewer payments.

DEFAULT. I will be in default if any of the following happens: (a) I fail to make any payment when due. (b) I break any promise I have made to Lender, or I fail to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan I have with Lender. (c) Any representation or statement made or furnished to Lender by me or on my behalf is false or misleading in any material respect either now or at the time made or furnished. (d) I die or become insolvent, a receiver is appointed for any part of my property, I make an assignment for the benefit of creditors, or any proceeding is commenced either by me or against me under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of my property on or in which Lender has a lien or security interest. This includes a garnishment of any of my accounts with Lender. (f) Any of the events described in this default section occurs with respect to any guarantor of this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then I will pay that amount. Upon my failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this Note 5.000 percentage points. Lender may hire or pay someone else to help collect this Note if I do not pay. I also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any

automatic stay or injunction), appeals, and any anticipated post-judgment collection services. I also will pay any court costs, in addition to all other sums provided by law. **This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, I agree upon Lender's request to submit to the jurisdiction of the courts of Santa Clara County, the State of California. This Note shall be governed by and construed in accordance with the laws of the State of California.**

COLLATERAL. I acknowledge this Note is secured by a Deed of Trust dated January 16, 2003, to a trustee in favor of Lender on real property located in San Mateo County, State of California. That agreement contains the following due on sale provision: Lender may, at its option, declare immediately due and payable all sums secured by this Note upon the sale or transfer, without the Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease-option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

NOTE RATE. The interest rate on this Note is 3.45%. In the event Greg Becker's employment with Lender terminates, I acknowledge and agree that the interest rate shall increase to the Note Rate of 5.45% per annum (the "Note Rate") effective the first day of the month following such termination of employment. In such case the monthly payments will increase to \$5,646.56 and my annual percentage rate shall be 5.487%. Additionally, the last payment shall increase accordingly.

BALLOON PAYMENT. THIS LOAN IS PAYABLE IN FULL AT MATURITY. YOU MUST THEN REPAY THE ENTIRE PRINCIPAL BALANCE OF THIS LOAN AND ALL UNPAID INTEREST THEN DUE.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. I and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several. This means that the words "I", "me", and "my" mean each and all of the persons signing below.

PRIOR TO SIGNING THIS NOTE, I, AND EACH OF US, READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. I, AND EACH OF US, AGREE TO THE TERMS OF THE NOTE AND ACKNOWLEDGE RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

X /s/ Gregory W. Becker
Gregory W. Becker

X /s/ Michelle A. Becker
Michelle A. Becker

By: /s/ Gregory W. Becker, Trustee
Gregory W. Becker, as Trustee of The Gregory W. Becker and Michelle A. Becker Revocable Trust dated April 3, 2000

By: /s/ Michelle A. Becker, Trustee
Michelle A. Becker, as Trustee of The Gregory W. Becker and Michelle A. Becker Revocable Living Trust dated April 3, 2000

Fixed Rate. Balloon. LASER PRO, Reg. U.S. Pat. & T.M. Off., Ver. 3.28 (c) 2003 CFI ProServices, Inc. All rights reserved. [CA-D20 BEC.LN R5.OVL]

Exhibit 10.58

SILICON VALLEY BANCSHARES
SENIOR MANAGEMENT
INCENTIVE COMPENSATION PLAN

1. PURPOSE.

The purpose of the Silicon Valley Bancshares Senior Management Incentive Compensation Plan is: (i) to motivate, attract, reward and

retain highly qualified executives who are important to the Company's success, and (ii) to provide competitive compensation incentives relating directly to the financial performance and long-term growth of the Company.

2. DEFINITIONS.

- (a) “**Affiliates**” means any parent corporation or subsidiary corporation, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) of the Code, respectively.
- (b) “**Award**” means the cash dollar amount of incentive compensation payable to a Member under the Plan for a Fiscal Year.
- (c) “**Board**” means the Board of Directors of the Company.
- (d) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (e) “**Committee**” means the Compensation Committee of the Board, or such other committee of the Board that is designated by the Board to administer the Plan.
- (f) “**Company**” means Silicon Valley Bancshares, a Delaware corporation, and its successors.
- (g) “**Fiscal Year**” means the Company's fiscal year ending December 31, 2004, and each subsequent fiscal year thereafter.
- (h) “**Guiding Principles**” means the fundamental principles, as may be set by the Company from time to time, to which employees of the Company strive to adhere in the performance of their job duties.
- (i) “**Member**” means a member of the Steering Committee, who is an officer of the Company subject to the reporting requirements of Section 16 of the Securities and Exchange Act of 1934, as amended.

- (j) “ **Plan** ” means the Silicon Valley Bancshares Incentive Compensation Plan, as amended from time to time.
- (k) “ **Plan Pool** ” means the reserved pool of cash available for granting Awards for the Fiscal Year under the Plan.
- (l) “ **Steering Committee** ” means the Steering Committee of the Company.

3. ADMINISTRATION

The Committee shall administer the Plan and shall have full power and authority to construe, interpret, and administer the Plan. All determinations and decisions of the Committee shall be final, conclusive and binding upon all persons.

4. ELIGIBILITY

Each Member shall be eligible to receive Awards for any Fiscal Year under the Plan, so long as he or she has been employed at the Company or an Affiliate for at least three months.

5. PLAN POOL; CORPORATE AND INDIVIDUAL TARGET

(a) **Plan Pool** . All Awards under this Plan shall be made from the Plan Pool, unless otherwise determined by the Committee. The size of the Plan Pool for each Fiscal Year shall be determined by the Committee, based upon the corporate targets and the individual payout targets for such Fiscal Year as determined pursuant to Section 5(b) below. The Committee may, at its discretion, also establish a minimum and/or maximum pool size. For accounting purposes, the Plan Pool shall be accrued on an annual basis or on such other basis as the Committee deems appropriate.

(b) **Corporate Targets; Individual Payout Targets** . Within the first four months of the Fiscal Year, the Committee shall determine the corporate targets on which Awards shall be calculated. The corporate targets shall be based on one or more indicators of the Company’s financial performance, such as net income, earnings per share, return on equity, earnings, gross profit and stock price. Additionally, within the first four months of the Fiscal Year, the Committee shall determine the individual payout targets for each Member, based on the extent of achievement of the established corporate targets (including minimum and maximum payout targets for underachievement or overachievement). Such individual payout targets shall be based on the Member’s annual base salary.

(c) **Change in Business** . If, at any time during the Fiscal Year, the Committee deems a change in the Company’s business, operations, corporate or capital structure, the manner in which it conducts business or any other change to be extraordinary and material and determines that, as a result of such change, the Plan Pool or any corporate target is no longer appropriate for such Fiscal Year, it may modify such Plan Pool or corporate target, as it deems appropriate and equitable in its discretion.

6. PAYMENT OF AWARDS

(a) ***Determination of Actual Awards*** . Subject to the terms and conditions herein, actual Awards to each Member under the Plan for each Fiscal Year shall be based on: (i) the extent of achievement of the applicable corporate targets as determined pursuant to Section 5(b) above, and (ii) the Member's individual payout targets. All Awards are subject to adjustment, based on the Committee's assessment of the Member's contributions and performance during the applicable Fiscal Year (including the adherence of such Member to the Company's Guiding Principles).

As soon as practicable after the Fiscal Year (but before March 1 of such year), the Committee shall confirm the extent to which the applicable corporate targets were achieved, along with the amounts of the actual Awards to be paid to each Member.

(b) ***Payment of Awards*** . Subject to Section 6(d) below, Awards under the Plan shall be paid in cash to Members on or before March 1 following the end of the applicable Fiscal Year. If a Member under the Plan serves as a member of the Steering Committee for only a portion of the applicable Fiscal Year, such Member may be entitled to receive a prorated Award, as determined by the Committee in its sole discretion.

(c) ***Discretionary Awards*** . Notwithstanding the foregoing, for any Fiscal Year, the Committee may make such other or additional Awards to any Member under the Plan as it deems appropriate, so long as the aggregate Awards made under the Plan do not exceed the maximum Plan Pool (if a maximum has been established by the Committee).

(d) ***Termination of Employment*** . A Member shall have no right to any Award under the Plan for any Fiscal Year if such Member is not actively employed by the Company or its Affiliates on the date on which Awards are actually paid for such Fiscal Year, unless otherwise determined by the Committee. A transfer of employment between the Company and any of its Affiliates shall not be deemed a termination of employment.

6. WITHHOLDING.

The Company or any Affiliate shall withhold from the payment of any Award hereunder any amount required to be withheld for taxes.

7. NO RIGHTS TO EMPLOYMENT.

Nothing in this Plan shall interfere with or limit in any way the right of the Company or any Affiliate to terminate any Member's employment at any time, nor confer upon any Member any right to continue in the employ of the Company or any Affiliate.

8. NO ASSIGNMENT; CERTAIN RIGHTS OF MEMBERS.

Except as otherwise required by applicable law, any interest, benefit, payment, claim or right of any participant under the Plan shall not be sold, transferred, assigned, pledged, encumbered or hypothecated by any Member and shall not be subject in any manner in to any claims of any creditor of any Member or beneficiary, and any attempt to take any such action shall be null and void. During the lifetime of any Member, payment of an Award shall only be made to such Member. Notwithstanding the foregoing, the Committee may establish such procedures as it deems necessary for a Member to designate a beneficiary to whom any amounts would be payable in the event of any Member's death.

To the extent a Member or other person acquires a right to receive payment with respect to an Award hereunder, such right shall be no greater than the right of an unsecured general creditor of the Company or any Affiliate. All amounts payable under the Plan shall be paid from the general assets of the Company and no special or separate fund or deposit shall be established and no segregation of assets shall be made to assure payment of such amounts.

9. SUSPENSION, REVISION, AMENDMENT OR TERMINATION OF THE PLAN.

The Committee may, from time to time, suspend, revise, amend or terminate the Plan.

10. GOVERNING LAW .

The Plan shall be governed by the laws of California.

July 16, 2003

Leilani Gayles

Los Altos, CA 94024

Dear Leilani,

This letter sets forth the substance of the separation agreement (the "Agreement") which SILICON VALLEY BANK (the "Bank") is offering to you to aid in your employment transition.

1. Separation. Your last day of work at the Bank shall be December 1, 2003 (the "Separation Date") but you will not be required to come into the office after July 31, 2003. You agree that you will take two weeks of your unused vacation prior to the Separation Date.

2. Accrued Salary and Paid Time Off. On November 28, 2003, the Bank will pay you all accrued salary and all accrued and unused vacation earned through the Separation Date, subject to standard payroll deductions and withholdings. You are entitled to these payments regardless of whether or not you sign this Agreement.

3. Severance Benefits. The Bank agrees to pay \$180,000, less deductions, which is the equivalent of thirteen months of year of salary at your current annual rate of pay. This payment will be made to you on the first business day following January 1, 2004, provided that you have not revoked the Employee Agreement and Release attached hereto as exhibit A (the "Release") within eight days following the execution of the Release.

You acknowledge that this payment shall be treated as severance pay, is subject to required payroll deductions and is in excess of and in addition to any other compensation due and owing to you by Bank.

You acknowledge and agree that the consideration for this Agreement is not accrued salary, wages, or vacation and that California Labor Code Section 206.5 is not applicable to this Agreement or to the parties hereto. That section provides in pertinent part:

No employer shall require the execution of any release of any claim or right on account of wages due, or to become due, or made as an advance on wages to be earned, unless payment of such wages has been made.

4. Group Medical, Vision and Dental Benefits. Through the Separation Date you may continue to participate in the Bank's group medical, disability, life insurance, vision and dental benefits and you will remain responsible for the premium amounts at the "regular employee rate" subject to the terms and conditions of the applicable program documents. Thereafter, you will be eligible for healthcare continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1995 (COBRA). Should you elect COBRA

continuation coverage, the Bank will continue to pay the portion of the premium provided to “regular employees” for up to fifteen (15) months following your Separation, as long as you remain eligible under the provisions of COBRA.

5. Change in Control Policy. You will not be eligible to receive benefits under the Bank's Change In Control Severance Benefits Policy following the Separation Date.

6. Employee Stock Purchase Program ("ESPP") and Stock Options. In accordance with the terms of the ESPP, you may continue to participate in the ESPP through June 30, 2003. Any contributions that you make to the ESPP for the offering period in which the Separation Date occurs will be refunded to you.

Similarly, through the Separation Date, you may continue to participate and to vest in your stock options in accordance with, and to the extent permitted by, the Stock Option Plan and your option agreement(s). Accordingly, after the Separation Date, you will have 90 days to exercise any vested options per the Stock Option Plan provisions.

7. Retirement Benefits. You are eligible to receive applicable distributions made for the 2003 plan year under 401 (k)/Employee Stock Ownership Plan ("ESOP"). In accordance with the current provisions of the plans, vesting of your account will be accelerated such that on your Separation Date, you will be fully vested in your account balances. Following the Separation Date, you will not be eligible to make contributions to the 401(k) plan or receive a contribution from the Bank to the ESOP.

8. Retention Program. You are entitled to receive applicable distributions made in January 2004 under the Retention Programs in which you participate. You will not receive "Continued Participation" under any of the plans in which you participate.

9. Incentive Compensation Program. You will receive a \$27,000.00 discretionary bonus for your performance during 2003, payable on your Separation Date.

10. Continued Use of Bank Services and/or Equipment. The Bank agrees, that for the six (6) month period following your Separation Date, you may continue remote access of your current voice mailbox, for the receipt of telephone calls related to your job search. The Bank also agrees that you may keep the Bank's laptop computer currently used by you, to further assist in your job search. You will also have access to your SVB e-mail service by means of Microsoft Outlook Web Access through your Separation Date.

11. Outplacement Benefits. At your request, the Bank will provide an additional \$18,850 payment, in lieu of the Severance Plan's Outplacement program for executives, payable on your Separation Date.

12. Other Compensation or Benefits. You acknowledge that, except as expressly provided in this Agreement, you will not receive any additional compensation, severance or benefits after the Separation Date. This includes, but is not limited to, any future compensation, severance or benefit related to the 401(k), Employee Stock Ownership Plan, stock options, ICP, Retention Plan, the Warrant Incentive Plan, Employee Stock Purchase Plan or CIC.

13. Expense Reimbursements. You agree that, within ten (10) days of the Separation Date, you will submit your final documented expense reimbursement statement reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement. The Bank will reimburse you for these expenses pursuant to its regular business practice.

14. Response to Inquiries. The Bank agrees to direct all inquiries from prospective employers regarding your employment to Marc Verrisimo, or if he is not immediately available, to Derek Witte. If so contacted, the Bank agrees to respond that, as a matter of policy, it can only confirm the dates of your employment, your job title, and salary (if requested). If such contact is made after November 1, 2003, the Bank agrees to further disclose that (1) you resigned from your employment effective November 1, 2003 and that (2) you are "eligible for rehire" according to the Bank's internal records. The Bank agrees that its Chief Executive Officer will sign a Letter of Recommendation in the form of Exhibit C hereto and that you may provide such Letter of Recommendation to prospective employers.

15. Return of Bank Property. By the Separation Date, you agree to return to the Bank all Bank documents (and all copies thereof) and other Bank property which you have had in your possession at any time, including, but not limited to, files, notes, drawings, records, business plans and forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to), credit cards, entry cards, identification badges and keys, cellular phones, and, any materials of any kind which contain or embody any proprietary or confidential information of the Bank (and all reproductions thereof). Notwithstanding the above, you may retain the laptop computer mentioned in paragraph 10, above.

16. Proprietary Information Obligations. Both during and after your employment you will refrain from any use or disclosure of the Bank's proprietary or confidential information or materials, including but not limited to all personnel information, all technical and non-technical information, including patent, copyright, trademark, and trade secrets related to the current, future, and proposed services of the Bank, its suppliers and customers' financial information, customer lists, databases, business forecasts, sales, merchandising, and marketing plans and information.

17. Confidentiality. The provisions of this Agreement shall be held in strictest confidence by you and the Bank and shall not be publicized or disclosed in any manner whatsoever; provided, however, that: (a) you may disclose this Agreement to your immediate family; (b) the parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Bank may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements; and (d) the parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law. In particular, and without limitation, you agree not to disclose the terms of this Agreement to any current or former Bank employee.

18. Nondisparagement. Both you and the Bank's executive officers (Ken Wilcox, Marc Verissimo, Lauren Friedman, Harry Kellogg, Jim Kochman, Derek Witte and anyone else who may become an Executive Officer between July 1, 2003 and January 1, 2004) agree not to disparage the other party, and the other party's officers, directors, employees, shareholders and agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation; provided that both you and the Bank shall respond accurately and fully to any question, inquiry or request for information when required by legal process.

19. Release. In exchange for the payments and other consideration under this Agreement to which you would not otherwise be entitled, you agree to execute the Employee Agreement and Release attached hereto and incorporated herein as Exhibit A and the Bank's obligations under this Agreement are all conditioned upon your not having revoked the Release within eight days following your execution and delivery to the Bank of the Release. The Bank agrees to execute a written release of you in the form of

Exhibit B attached hereto for any and all claims, liabilities, demands, causes of action, damages, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to and including the execution date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with your employment with the Bank.

20. Miscellaneous. This Agreement, including Exhibits A, B and C constitute the complete, final and exclusive embodiment of the entire agreement between you and the Bank with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in writing signed by both you and a duly authorized officer of the Bank. This Agreement shall bind the heirs, personal representatives, successors and assigns of both you and the Bank, and inure to the benefit of both you and the Bank, their heirs, successors and assigns. If any provision of this Agreement is determined by any court to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question shall be modified by the court so as to be rendered enforceable. This Agreement shall be deemed to have been entered into and shall be construed and enforced in accordance with the laws of the State of California as applied to contracts made and to be performed entirely within California. You agree to cooperate with the Bank and execute any reasonably necessary agreements to facilitate the purpose of this Agreement.

If this Agreement is acceptable to you, please sign below and on the attached Employee Agreement and Release, which is part of this Agreement, and return the originals of both to Leilani Gayles by no later than the date which is 21 days after your receipt of this Agreement. This Agreement will automatically expire if you fail to return the Employee Agreement and the Release by such date.

Sincerely,

SILICON VALLEY BANK

By: /s/ Derek Witte

Date: July 16, 2003

Derek Witte
Exhibit A - Employee Agreement and Release
Exhibit B - Agreement and Release
Exhibit C - Letter of Recommendation

AGREED:

/s/ Leilani Gayles
Leilani Gayles

Date: July 16, 2003

Exhibit 14.1

**SILICON VALLEY BANCSHARES
CODE OF ETHICS FOR
PRINCIPAL EXECUTIVE OFFICER AND SENIOR FINANCIAL OFFICERS**

PURPOSE AND APPLICATION

The purpose of this Code of Ethics for the Principal Executive Officer and Senior Financial Officers (the "Code") of Silicon Valley Bancshares (the "Company") is to help deter wrongdoing, promote honest and ethical conduct and ensure compliance with applicable governmental laws, rules and regulations, including Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder.

The Code is applicable to the Company's principal executive officer (Chief Executive Officer), principal financial officer (Chief Financial Officer) principal accounting officer or controller, or persons performing similar functions (the "Senior Officers"). The Senior Officers are expected to read, understand and comply with the Code.

Nothing in the Code or in other related communications (verbal or written) creates or implies an employment contract or term of employment.

HONEST AND ETHICAL CONDUCT

The Company expects the Senior Officers to act with the highest standards of honest and ethical conduct while working at or representing the Company. The Company considers honest and ethical conduct to be conduct that is free from fraud and that conforms to accepted professional standards of conduct. This includes the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, as discussed in more detail in the section entitled "Conflicts of Interest" below.

In all cases, if you are unsure about the appropriateness of an event or action, please seek assistance in interpreting the requirements of these practices by contacting the Company’s Chief Financial Officer (or, in the case of the Chief Executive Officer or Chief Financial Officer, the Company’s Audit Committee).

CONFLICTS OF INTEREST

The Code requires the Senior Officers to ethically handle actual or apparent conflicts of interest between personal and professional relationships. A conflict of interest exists where the interests or benefits of one person or entity conflict with the interests or benefits of the Company.

Some examples of actual or apparent conflicts of interests include:

- outside employment or directorships with an important customer, supplier or competitor of the Company, other than on behalf of the Company;
- making significant financial investments in an important customer, supplier or competitor of the Company without approval from the Company; or
- receiving significant improper personal benefits from another person or entity as a result of the Senior Officer's position with the Company and with the intent to inappropriately influence the Senior Officer's decision-making on behalf of the Company.

Because other conflicts of interest may arise, it would be impractical to attempt to list all possible situations. If a proposed transaction or situation raises any questions or doubts for you, you should consult the Company's Chief Financial Officer (or, in the case of the Chief Executive Officer or Chief Financial Officer, the Company's Audit Committee).

The Company's policy requires that a Senior Officer disclose any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest to the Chief Financial Officer (or, in the case of the Chief Executive Officer or Chief Financial Officer, the Company's Audit Committee) and that the Company's Audit Committee give prior approval before a Senior Officer enters into any such material transaction or relationship.

FULL, FAIR, TIMELY AND UNDERSTANDABLE DISCLOSURE

The Senior Officers must take appropriate steps to attempt to provide full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company.

COMPLIANCE WITH APPLICABLE GOVERNMENTAL LAWS, RULES AND REGULATIONS

The Senior Officers must seek to comply with applicable governmental laws, rules and regulations. Violations of applicable governmental laws, rules and regulations may subject the Senior Officers to individual criminal or civil liability, as well as to discipline by the Company.

INTERNAL REPORTING OF VIOLATIONS OF THE CODE

Part of a Senior Officer's responsibilities is to help enforce this Code. The Senior Officers should report violations of the Code to the Chief Financial Officer or, if the violations of the Code involve the Chief Financial Officer or Chief Executive Officer, to the Company's Audit Committee.

Senior Officers must cooperate with any internal or external investigations of possible violations of the Code. Discrimination, retaliation or harassment against any person who has in good faith reported a violation or a suspected violation of the Code, or against any person who is assisting in any investigation or process with respect to such a violation, is prohibited.

ACCOUNTABILITY FOR ADHERENCE TO THE CODE

Complying with the Code is a condition of employment with the Company, and the Company will take appropriate action against any Senior Officer whose actions are found to violate the Code. Disciplinary actions may include termination of employment at the Company's sole discretion. Where the Company has suffered a loss, it may pursue its remedies against the individuals or entities responsible. Where laws have been violated, the Company will cooperate fully with the appropriate governmental authorities.

CHANGES OR WAIVERS OF THE CODE

The Company is committed to continuously reviewing and updating its policies and procedures. Therefore, the Code is subject to modification. Any changes or waivers of the Code must be approved by the Company's Audit Committee and disclosed to the extent required by applicable law.

Silicon Valley Bancshares Annual Report on Form 10-K

Subsidiaries of Silicon Valley Bancshares

Silicon Valley Bancshares owns outstanding voting securities or partnership interests of the following corporations and partnerships, which are included in Silicon Valley Bancshares' consolidated financial statements:

Name	Ownership Interest	Jurisdiction of Incorporation
Silicon Valley Bank	100.0%	California
SVB Leasing Company (inactive)	100.0%	California
SVB Capital I	100.0%	Delaware
SVB Capital II	100.0%	Delaware
SVB Strategic Investors, LLC	100.0%	California
SVB Strategic Investors Fund, L.P.	11.1%	California
Silicon Valley BancVentures, Inc.	100.0%	California
Silicon Valley BancVentures, L.P.	10.7%	California
Gold Hill Venture Lending Partners 03, LLC	100.0%	California
Gold Hill Venture Lending 03, L.P.	100.0%	Delaware
Alliant Partners	100.0%	California
SVB Woodside Financial	100.0%	California
Libra Partners, L.P.	<1.0%	California
Taurus Growth Partners, L.P.	<1.0%	California
SVB Strategic Investors II, LLC	100.0%	Delaware
SVB Strategic Investors Fund II, L.P.	100.0%	Delaware
Silicon Valley Bancshares Cayman Islands	100.0%	Cayman Islands

Silicon Valley Bank owns 100% of the outstanding voting securities of the following corporations, which are included in Silicon Valley Bancshares' consolidated financial statements:

Name	Jurisdiction of Incorporation
Woodside Asset Management, Inc.	California
SVB Asset Management	California
SVB Securities	California
Real Estate Investment Trust	Maryland

Consent of Independent Auditors

The Board of Directors
Silicon Valley Bancshares:

We consent to incorporation by reference in the registration statement No. 333-108434 on Form S-8 and registration statements (Nos. 333-107994 and 333-109312) on Forms S-3 of Silicon Valley Bancshares of our report dated February 25, 2004, relating to the consolidated balance sheets of Silicon Valley Bancshares and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003, which report appears in the December 31, 2003, Annual Report on Form 10-K of Silicon Valley Bancshares.

/s/ KPMG LLP

San Francisco, California
March 10, 2004

EXHIBIT 31.1

CERTIFICATION

I, Kenneth P. Wilcox, certify that:

1. I have reviewed this annual report on Form 10-K of Silicon Valley Bancshares;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/s/ KENNETH P. WILCOX

Kenneth P. Wilcox
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Marc Verissimo, certify that:

1. I have reviewed this annual report on Form 10-K of Silicon Valley Bancshares;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/s / MARC VERISSIMO

Marc Verissimo
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATIONS

I, Kenneth P. Wilcox, certify that, to my knowledge, the Annual Report of Silicon Valley Bancshares on Form 10-K for the annual period ended December 31, 2003, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Silicon Valley Bancshares.

Date: March 10, 2004

/s/ KENNETH P. WILCOX

Kenneth P. Wilcox
President and Chief Executive Officer
(Principal Executive Officer)

I, Marc Verissimo, certify that, to my knowledge, the Annual Report of Silicon Valley Bancshares on Form 10-K for the annual period ended December 31, 2003, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Silicon Valley Bancshares.

Date: March 10, 2004

/s/ MARC VERISSIMO

Marc Verissimo
Chief Financial Officer
(Principal Financial Officer)

End of Filing

Powered By **EDGAR**
Online

© 2005 | **EDGAR Online, Inc.**