GRIFFON CORP
Form SC 13D/A
December 21, 2018

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

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

Griffon Corporation

(Name of Issuer)

Common Stock, par value $0.25 per share

(Title of Class of Securities)

398433102

(CUSIP Number)

Ronald J. Kramer

712 Fifth Avenue, 18th Floor

New York, New York 10019

Copy to:

Martin Nussbaum

Dechert LLP

1095 Avenue of the Americas

New York, NY 10036

(212) 698-3500

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

December 20, 2018

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP Number: 398433102

1.	Names of Reporting Person Ronald J. Kramer	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) o	
3.	SEC Use Only	
4.	Source of Funds (See Instructions) [OO]	
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	o
6.	Citizenship or Place of Organization United States of America	

Number of Shares Beneficially Owned by Each Reporting Person With		
	7.	Sole Voting Power 3,667,448* shares
	8.	Shared Voting Power 0 shares
	9.	Sole Dispositive Power 2,037,564 shares
	10.	Shared Dispositive Power 0 shares

11.	Aggregate Amount Beneficially Owned by Each Reporting Person 3,667,448** shares of Common Stock	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	x
13.	Percent of Class Represented by Amount in Row (11) 7.9%***	
14.	Type of Reporting Person (See Instructions) IN	

* This includes 1,884 shares of the common stock, par value $0.25 per share (“Common Stock”), of Griffon Corporation, a Delaware corporation (the “Issuer”), allocated to Mr. Kramer’s account under the Griffon Corporation Employee Stock Ownership Plan (“ESOP”). The ESOP trustee will vote these shares in accordance with Mr. Kramer’s voting instructions, subject to the ESOP trustee’s fiduciary duties under ERISA. In addition, the ESOP trustee votes both (i) the shares of Common Stock in the ESOP allocated to participants for which voting instructions are not received, as well as (ii) the unallocated shares of Common Stock in the ESOP, in the same manner and proportion as those allocated shares with respect to which votes are timely cast by all

participants in the ESOP; accordingly, Mr. Kramer may be deemed to have voting control over a portion of the shares referred to in clauses (i) and (ii) above. However, the number of these shares over which Mr. Kramer is deemed to have voting control depends at any time not only on the amount of unallocated shares in the ESOP, but also on the portion of allocated shares with respect to which timely voting instructions are provided; therefore, it is not possible to provide a meaningful estimate of this amount.

** This does not include 40,298 shares of Common Stock owned by Mr. Kramer's wife and children. Mr. Kramer has disclaimed beneficial ownership of such shares of Common Stock.

*** Percentage of class calculation is based on 46,790,845 shares of Common Stock outstanding as of December 20, 2018.

This Amendment No. 2 supplements and amends certain information in the Schedule 13D filed on February 10, 2014, as amended by Amendment No 1. filed on February 2, 2017, on behalf of Ronald J. Kramer (the “Schedule 13D”).

Except as set forth below, all Items of the Schedule 13D remain unchanged. All capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Schedule 13D.

Item 2. Identity and Background

Item 2(c) of the Schedule 13D is hereby amended and restated in its entirety as follows:

(c) Mr. Kramer is the Chairman of the Board of Directors and Chief Executive Officer of the Issuer. The Issuer is a diversified management and holding company that conducts business through wholly-owned subsidiaries.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 of the Schedule 13D is hereby amended and restated in its entirety as follows:

Mr. Kramer acquired the Common Stock he beneficially owns through (i) the purchase of shares of Common Stock from the Issuer, (ii) open market purchases, (iii) grants of restricted shares and (iv) shares allocated to his account under the ESOP.

Item 4. Purpose of Transaction

Item 4 of the Schedule 13D is hereby amended and supplemented by adding the following information:

On each of December 20, 2017 and December 20, 2018, Mr. Kramer received an award of 396,000 shares of restricted Common Stock (for an aggregate total of 792,000 shares) pursuant to the Issuer’s 2016 Equity Incentive Plan (the “Plan”) as compensation for his services as Chief Executive Officer of the Issuer, the vesting of which is subject to the achievement of certain absolute and relative performance conditions relating to the price of the Issuer’s Common Stock. The terms of each of these awards also restrict Mr. Kramer from transferring the shares for a two year period following vesting. Mr. Kramer acquired the Common Stock he beneficially owns for investment purposes. Mr.

Kramer does not currently have any plans or proposals (other than those he may have from time to time in his role as an officer of the Issuer) that relate to or that would result in any of the transactions or other matters specified in clauses (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

(a) Mr. Kramer beneficially owns 3,667,448 shares of Common Stock of the Issuer. The shares of Common Stock owned by Mr. Kramer equal approximately 7.9% of the Issuer’s outstanding shares of Common Stock, based on 46,790,845 shares outstanding as of December 20, 2018.

(b) Mr. Kramer has sole voting power over the 3,667,448 shares of Common Stock beneficially owned by him (which includes 1,628,000 shares of restricted Common Stock with respect to which Mr. Kramer does not have dispositive power), and has sole dispositive power over 2,037,564 of such shares.

(c) Mr. Kramer effected the following transactions with respect to the Common Stock of the Issuer within the past sixty (60) days:

From November 16, 2018 through November 29, 2018, Mr. Kramer purchased an aggregate of 59,997 shares of Common Stock in a series of open market transactions, as set forth in greater detail on Annex I.

On December 7, 2018, Mr. Kramer donated 25,000 shares of Common Stock to a charitable organization.

On December 20, 2018, Mr. Kramer received an award of 396,000 shares of restricted Common Stock pursuant to the Plan as compensation for his services as Chief Executive Officer of the Issuer.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Item 6 of the Schedule 13D is hereby amended and restated in its entirety as follows:

Mr. Kramer is party to certain Award Agreements for Restricted Share Awards with the Issuer (each such agreement, an “Award Agreement”) with respect to the 1,628,000 shares of restricted Common Stock owned beneficially by Mr. Kramer. These shares of restricted Common Stock were awarded to Mr. Kramer as compensation for his services as Chief Executive Officer of the Issuer. Each Award Agreement is in substantially the same form as the Form of Award Agreement for Restricted Share Award filed as Exhibit 99.2 to the Current Report on Form 8-K dated February 9, 2011. Subject to Mr. Kramer’s continued employment, these restricted shares will vest on the dates set forth in each Award Agreement, conditioned, however, on the achievement of certain performance criteria relating to the absolute and relative performance of the price of the Issuer’s Common Stock (provided, however, that with respect to 298,667 of these restricted shares, the applicable performance criteria has been achieved). The terms of each of these Award Agreements also restrict Mr. Kramer from transferring the shares for a two year period following vesting.

Mr. Kramer was also party to an award agreement under which he was awarded an option to purchase 350,000 shares of Common Stock at an exercise price of $20.00 per share, which expired on October 1, 2018.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

/s/ RONALD J. KRAMER
Ronald J. Kramer

Dated: December 21, 2018

Annex I

Open Market Purchases

Date	Number of Shares	Weighted Average Price Per Share	Purchase Price Range[1]
November 16, 2018	19,997	$12.20	$11.97 to $12.43
November 19, 2018	10,000	$11.97	$11.69 to $12.52
November 21, 2018	5,000	$12.72	$12.59 to $12.84
November 23, 2018	5,000	$11.86	$11.72 to $11.92
November 26, 2018	5,000	$12.12	$12.00 to $12.22
November 27, 2018	5,000	$11.96	$11.83 to $12.03
November 28, 2018	5,000	$12.41	$11.90 to $12.58
November 29, 2018	5,000	$12.24	$12.10 to $12.47

1 The price reported in the prior column is a weighted average price. Mr. Kramer undertakes to provide the Issuer, any security holder of the Issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares purchased at each price within the range set forth in this column.

ns-serif;font-size:10pt;"> is as follows:

	December 31,			
(Dollars in thousands)	2015	2014	% Change	
Derivative assets, gross (1)	$175,083	$157,990	10.8	%
Accrued interest receivable	107,604	94,180	14.3	
FHLB and Federal Reserve Bank stock	56,991	53,496	6.5	
Foreign exchange spot contract assets, gross	142,832	51,972	174.8	
Net deferred tax assets (2)	73,941	45,979	60.8	
Accounts receivable	48,662	20,092	142.2	
Other assets	104,594	129,499	(19.2	)
Total accrued interest receivable and other assets	$709,707	$553,208	28.3	

(1) See “Derivatives” section below.

(2) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2—

76

Table of Contents

"Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

Accrued Interest Receivable

The increase of $13.4 million in accrued interest during 2015 is primarily reflective of the strong growth in our fixed income investment securities portfolio as well as our increase in net loans. Period-end investment securities, excluding non-marketable and other securities increased $4.2 billion, or 20.1 percent during 2015. Period-end loan balances were $16.7 billion, an increase of $2.4 billion, or 16.4 percent, when compared to 2014.

Foreign Exchange Spot Contract Assets

Foreign exchange spot contract assets represent unsettled client trades at the end of the period. The increase of $90.9 million was primarily due to increased client trade activity at period-end.

Net Deferred Tax Assets

The increase of $28.0 million in net deferred tax assets primarily relates to an increase in the allowance for loan and lease losses and a decrease in the fair value of our available-for-sale securities portfolio.

Accounts Receivable

The increase of $28.6 million in accounts receivable primarily relates to receivables from our SVB Capital funds management business.

Derivatives

Derivative instruments are recorded as a component of other assets and other liabilities on the balance sheet. The following table provides a summary of derivative assets and liabilities, net at December 31, 2015 and 2014:

	December 31,		
(Dollars in thousands)	2015	2014	% Change
Assets:			
Equity warrant assets	$137,105	$116,604	17.6 %
Foreign exchange forward and option contracts	31,237	34,231	(8.7)
Interest rate swaps	2,768	4,609	(39.9)
Client interest rate derivatives	3,973	2,546	56.0
Total derivatives assets	$175,083	$157,990	10.8
Liabilities:			
Foreign exchange forward and option contracts	$(26,353)	$(28,363)	(7.1)
Client interest rate derivatives	(4,384)	(2,748)	59.5
Total derivatives liabilities	$(30,737)	$(31,111)	(1.2)

Equity Warrant Assets

In connection with negotiating credit facilities and certain other services, we often obtain rights to acquire stock in the form of equity warrant assets in primarily private, venture-backed companies in the technology and life science/healthcare industries. At December 31, 2015, we held warrants in 1,652 companies, compared to 1,478 companies at December 31, 2014. Warrants in 21 companies had values greater than $1.0 million and represented 34 percent of the fair value of the total warrant portfolio. The change in fair value of equity warrant assets is recorded in gains on derivatives instruments, net, in noninterest income, a component of consolidated net income. The following table provides a summary of transactions and valuation changes for the years ended December 31, 2015 and 2014:

Table of Contents

(Dollars in thousands)	Year ended December 31, 2015	2014
Balance, beginning of period	$116,604	$103,513
New equity warrant assets	12,486	16,073
Non-cash increases in fair value	30,548	33,106
Exercised equity warrant assets (1)	(21,493)	(35,232)
Terminated equity warrant assets	(1,040)	(856)
Balance, end of period	$137,105	$116,604

(1) Includes the exercise of several public equity warrants in FireEye and Twitter during the year ended December 31, 2014.

Foreign Exchange Forward and Foreign Currency Option Contracts

We enter into foreign exchange forward contracts and foreign currency option contracts with clients involved in international activities, either as the purchaser or seller, depending upon the clients' need. We also enter into an opposite-way forward or option contract with a correspondent bank to economically hedge client contracts to mitigate the fair value risk to us from fluctuations in currency rates. Settlement, credit, and operational risks remain. We also enter into forward contracts with correspondent banks to economically hedge currency exposure risk related to certain foreign currency denominated assets and liabilities. Revaluations of foreign currency denominated instruments are recorded on the line item “Other” as part of noninterest income, a component of consolidated net income. We have not experienced nonperformance by any counterparty to such forward or option contracts and therefore have not incurred any related losses. Further, we anticipate performance by all counterparties. Our net exposure for foreign exchange forward and foreign currency option contracts at December 31, 2015 and 2014 was $3.0 million and $1.1 million, respectively. For additional information on our foreign exchange forward contracts and foreign currency option contracts, see Note 14–“Derivative Financial Instruments” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report.

Interest Rate Derivatives

For information on our interest rate derivatives, please refer to Note 14–“Derivative Financial Instruments” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report.

Deposits

The following table presents the composition of our deposits as of December 31, 2015, 2014, and 2013:

(Dollars in thousands)	December 31, 2015	2014	2013
Noninterest-bearing demand	$30,867,497	$24,583,682	$15,894,360
Interest bearing checking and savings accounts	330,525	262,800	165,210
Money market	6,128,442	6,177,706	4,360,510
Money market deposits in foreign offices	88,656	242,526	181,299
Sweep deposits in foreign offices	1,657,177	2,948,658	1,657,740
Time	70,479	128,127	213,860
Total deposits	$39,142,776	$34,343,499	$22,472,979

The increase in deposits of $4.8 billion in 2015 was driven by increases in our noninterest-bearing demand accounts reflective of growth from new domestic and foreign clients and a result of strong M&A activity during the year resulting in increased balances from existing clients. 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.

The increase in deposits of $11.9 billion in 2014 was primarily driven by increases in our noninterest-bearing demand, money market deposits, and sweep deposits in foreign offices of $8.7 billion, $1.8 billion, and $1.3 billion, respectively, reflective of growth from new domestic and foreign clients and strong IPO and M&A activity during the year resulting in increased balances from existing clients.

78

Table of Contents

At December 31, 2015, 21.1 percent of our total deposits were interest-bearing deposits, compared to 28.4 percent at December 31, 2014 and 29.3 percent at December 31, 2013.

At December 31, 2015, the aggregate balance of time deposit accounts individually equal to or greater than $250,000 totaled $54 million, compared to $106 million at December 31, 2014 and $183 million at December 31, 2013. At December 31, 2015, all time deposit accounts individually equal to or greater than $250,000 were scheduled to mature within one year. The maturity profile of our time deposits as of December 31, 2015 is as follows:

	December 31, 2015				
(Dollars in thousands)	Three months or less	More than three months to six months	More than six months to twelve months	More than twelve months	Total
Time deposits, $250,000 and over	$31,866	$8,756	$13,311	$—	$53,933
Other time deposits	9,346	2,460	4,538	202	16,546
Total time deposits	$41,212	$11,216	$17,849	$202	$70,479

Short-Term Borrowings

The following table summarizes our short-term borrowings that mature in one month or less:

	December 31,					
	2015		2014		2013	
(Dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Short-term FHLB advances	$638,000	0.25 %	$—	— %	$—	— %
Federal funds purchased	135,000	0.64	—	—	—	—
Other short-term borrowings	1,900	0.20	7,781	0.08	5,080	0.08
Total short-term borrowings	$774,900	0.32	$7,781	0.08	$5,080	0.08

On December 31, 2015, we borrowed $638 million from our available line of credit with the FHLB and purchased $135 million of federal funds in order to maintain minimum cash balances as a result of ordinary deposit outflows at year end.

Average daily balances and maximum month-end balances for our short-term borrowings in 2015, 2014 and 2013 were as follows:

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Average daily balances:			
Federal Funds purchased (1)	$8,477	$167	$13,729
FHLB advances	6,542	1,096	7,959
Securities sold (purchased) under agreements to repurchase	1,222	—	(435)
Other short-term borrowings (2)	6,985	5,001	5,765
Total average short-term borrowings	$23,226	$6,264	$27,018
Maximum month-end balances:			
Federal Funds purchased	$135,000	$—	$15,000
FHLB advances	638,000	—	—
Securities sold (purchased) under agreements to repurchase	—	—	(5,120)
Other short-term borrowings	21,561	7,781	7,460

(1) As part of our liquidity risk management practices, we periodically test availability and access to overnight borrowings in the Fed Funds market. These balances represent short-term borrowings.

(2) Represents cash collateral received from certain counterparties in relation to market value exposures of derivative contracts in our favor and our interest rate swap agreement related to our 6.05% Subordinated Notes.

79

Table of Contents

Long-Term Debt

The following table represents outstanding long-term debt at December 31, 2015, 2014 and 2013:

(Dollars in thousands)	Principal value at December 31, 2015	December 31, 2015	2014	2013
3.50% Senior Notes	$350,000	$346,667	$—	$—
5.375% Senior Notes	350,000	347,016	346,477	345,966
6.05% Subordinated Notes	45,964	48,350	50,040	51,820
Junior Subordinated Debentures	50,000	54,669	54,845	55,020
Total long-term debt	$795,964	$796,702	$451,362	$452,806

The increase in our long-term debt in 2015 was due to the issuance on January 29, 2015, of $350 million of 3.50% Senior Notes due in January 2025.

For more information on our long-term debt outstanding at December 31, 2015, please refer to Note 13–"Short-Term Borrowings and Long-Term Debt" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Other Liabilities

A summary of other liabilities at December 31, 2015 and 2014 is as follows:

(Dollars in thousands)	December 31, 2015	2014	% Change
Accrued compensation	$151,134	$120,841	25.1 %
Foreign exchange spot contract liabilities, gross	154,699	94,999	62.8
Reserve for unfunded credit commitments	34,415	36,419	(5.5)
Derivative liabilities, gross (1)	30,737	31,111	(1.2)
Other	268,109	200,123	34.0
Total other liabilities	$639,094	$483,493	32.2

(1) See "Derivatives" section above.

Foreign Exchange Spot Contract Liabilities

Foreign exchange spot contract liabilities represent unsettled client trades at the end of the period. The increase of $59.7 million was primarily due to increased client trade activity at period-end.

Accrued Compensation

Accrued compensation includes amounts for our Incentive Compensation Plan, Direct Drive Incentive Compensation Plan, Retention Program, Warrant Incentive Plan, ESOP and other compensation arrangements. The increase of $30.3 million was primarily the result of larger incentive compensation accruals at December 31, 2015 due to an increase in average FTEs and increased financial performance for 2015. For a description of our variable compensation plans please refer to Note 17—"Employee Compensation and Benefit Plans" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Other

Other liabilities increased $68.0 million to $268.1 million at December 31, 2015, compared to $200.1 million at December 31, 2014, primarily due to a $25.0 million increase in payables related to our investments in tax credit funds.

Noncontrolling Interests

Noncontrolling interests totaled $0.1 billion and $1.2 billion at December 31, 2015 and 2014, respectively. The large decrease was due to the deconsolidation of 16 limited partnership entities as part of our adoption of ASU 2015-02. Additionally, net capital distributions of $65 million to investors in our managed funds were partially offset by net income attributable to noncontrolling interests of $31 million for the year ended December 31, 2015, primarily related

to valuation increases in our

80

Table of Contents

managed funds of funds. For more information, refer to Note 2—"Summary of Significant Accounting Policies—Principles of Consolidation and Presentation" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Capital Resources

We maintain an adequate capital base to support anticipated asset growth, operating needs and credit and other business risks, and to ensure that SVB Financial and the Bank are in compliance with all regulatory capital guidelines, including the "Basel III" capital rules. Our primary sources of new capital include retained earnings and proceeds from the sale and issuance of our capital stock or other securities. In consultation with the Finance Committee of our Board of Directors, management engages in regular capital planning processes in an effort to optimize the use of the capital available to us and to appropriately plan for our future capital needs. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing and future business activities. Expected future use or activities for which capital may be set aside include balance sheet growth and associated relative increases in market or credit exposure, investment activity, potential product and business expansions, acquisitions and strategic or infrastructure investments. In addition, we conduct capital stress tests as part of our annual capital planning process. The stress tests allow us to assess the impact of adverse changes in the economy and interest rates on our capital adequacy position.

SVBFG Stockholders’ Equity

SVBFG stockholders’ equity totaled $3.2 billion at December 31, 2015, an increase of $385 million, or 13.7 percent compared to $2.8 billion at December 31, 2014. This increase was primarily the result of net income of $344 million in 2015 and an increase in additional-paid-in-capital of $69 million primarily reflective of the issuance of common stock under our equity incentive plans. These increases were partially offset by the decrease in the net balance of our accumulated other comprehensive income to $15 million from $43 million at December 31, 2014, which was primarily driven by a $37 million decrease in the fair value of our available-for-sale securities portfolio ($22 million net of tax), from increases in period-end market interest rates.

Funds generated through retained earnings are a significant source of capital and liquidity and are expected to continue to be so in the future.

Capital Ratios

Regulatory capital ratios for SVB Financial and the Bank exceeded minimum federal regulatory guidelines for a well-capitalized bank holding company and insured depository institution, respectively, as of December 31, 2015, 2014 and 2013. See Note 21–“Regulatory Matters” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report for further information. Capital ratios for SVB Financial and the Bank, compared to the minimum regulatory ratios to be considered “well capitalized” and “adequately capitalized”, are set forth below:

	December 31,			Minimum Ratios under Applicable Regulatory Capital Adequacy Requirements	
	2015	2014	2013	“Well Capitalized”	“Adequately Capitalized”
SVB Financial:					
CET 1 risk-based capital ratio (1)	12.28 %	— %	— %	6.5 %	4.5 %
Tier 1 risk-based capital ratio (2)	12.83	12.91	11.94	8.0	6.0
Total risk-based capital ratio (2)	13.84	13.92	13.13	10.0	8.0
Tier 1 leverage ratio (2)	7.63	7.74	8.31	N/A	4.0
Tangible common equity to tangible assets ratio (3)(4)(5)	7.16	7.15	7.43	N/A	N/A
Tangible common equity to risk-weighted assets ratio (3)(4)(5)	12.34	12.93	11.61	N/A	N/A
Bank:					
CET 1 risk-based capital ratio (1)	12.52 %	— %	— %	6.5 %	4.5 %
Tier 1 risk-based capital ratio (2)	12.52	11.09	10.11	8.0	6.0

Total risk-based capital ratio (2)	13.60	12.12	11.32	10.0	8.0
Tier 1 leverage ratio (2)	7.09	6.64	7.04	5.0	4.0
Tangible common equity to tangible assets ratio (3)(4)(5)	6.95	6.38	6.58	N/A	N/A
Tangible common equity to risk-weighted assets ratio (3)(4)(5)	12.59	11.19	9.84	N/A	N/A

(1) Effective January 1, 2015, CET 1 is a new ratio requirement under the "Basel III" Capital Rules and represents, common stock, plus related surplus and retained earnings, plus limited amounts of minority interest in the form of common stock, less certain regulatory deductions, divided by total risk-weighted assets.

81

Table of Contents

(2) Ratios as of December 31, 2015 reflect the adoption of the "Basel III" Capital Rules in effect beginning January 1, 2015. Ratios for prior periods represent the previous capital rules under Basel I.

(3) See below for a reconciliation of non-GAAP tangible common equity to tangible assets and tangible common equity to risk-weighted assets.

(4) The FRB has not issued any minimum guidelines for the tangible common equity to tangible assets ratio or the tangible common equity to risk-weighted assets ratio. However, we believe these ratios provide meaningful supplemental information regarding our capital levels and are therefore provided above.

(5) Prior period ratios have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01).

2015 compared to 2014

The total risk-based capital and tier 1 capital ratios as of December 31, 2015, for SVB Financial decreased compared to December 31, 2014. The decrease in SVB Financial's risk-based capital was primarily due to the impact of the Basel III risk-weighting standards on unused loan commitments with original maturities of one year or less and certain equity investments related to our noncontrolling interests as well as a proportionally higher increase in risk-weighted and average assets compared to the increase in our capital during 2015. SVB Financial's tier 1 leverage ratio decreased compared to December 31, 2014 primarily due to the increase in average assets, driven by the growth in deposits. For the Bank, the total risk-based capital, tier 1 capital, and tier 1 leverage ratios as of December 31, 2015, increased compared to the same ratios as of December 31, 2014. This increase was a result of SVB Financial's contribution of capital to the Bank totaling $350 million, which was funded primarily by the net proceeds from the issuance of our 3.50% Senior Notes. The capital contribution from SVB Financial to the Bank was provided to support our clients' continued growth during 2015. The increases in the Bank's ratios, resulting from the contribution, were partially offset by the impact of the new regulatory requirements related to unused commitments as discussed above. All of our capital ratios are above the levels to be considered “well capitalized" under banking regulations.

2014 compared to 2013

Our total risk-based capital (includes tier 1 and tier 2 capital components) and tier 1 risk-based capital ratios for both SVB Financial and the Bank increased compared to December 31, 2013, primarily reflective of growth in retained earnings and our public offering of 4,485,000 shares of common stock during the second quarter of 2014, which resulted in net proceeds of $435 million, of which $400 million was contributed to the Bank and had a positive impact on Bank level capital ratios. The increase in our total risk-based capital ratios and tier 1 risk-based capital ratios reflect the increase in regulatory capital partially offset by the increase in risk-weighted assets during the period, primarily due to growth in our loans and our period-end unfunded commitments. The tier 1 leverage ratio for both SVB Financial and the Bank decreased compared to December 31, 2013 due to the increase in total average assets during the period, primarily due to the significant growth in client deposits that flowed into our investment securities portfolio, cash and loans, which more than offset the increase in regulatory capital. All of our capital ratios were above the levels to be considered “well capitalized" during these years.

Non-GAAP Tangible Common Equity to Tangible Assets and Non-GAAP Tangible Common Equity to Risk-weighted Assets

The tangible common equity to tangible assets ratio and the tangible common equity to risk-weighted assets ratios are not required by GAAP or applicable bank regulatory requirements. However, we believe these ratios provide meaningful supplemental information regarding our capital levels. Our management uses, and believes that investors benefit from referring to, these ratios in evaluating the adequacy of the Company’s capital levels; however, this financial measure should be considered in addition to, not as a substitute for or preferable to, comparable financial measures prepared in accordance with GAAP. These ratios are calculated by dividing total SVBFG stockholder’s equity, by total period-end assets and risk-weighted assets, after reducing both amounts by acquired intangibles, if any. The manner in which this ratio is calculated varies among companies. Accordingly, our ratio is not necessarily comparable to similar measures of other companies. The following table provides a reconciliation of non-GAAP financial measures with financial measures defined by GAAP:

Table of Contents

Non-GAAP tangible common equity and tangible assets (dollars in thousands, except ratios)	SVB Financial				
	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
GAAP SVBFG stockholders' equity (1)	$3,198,134	$2,813,072	$1,961,635	$1,827,256	$1,569,392
Less:					
Intangible assets	—	—	—	—	601
Tangible common equity (1)	$3,198,134	$2,813,072	$1,961,635	$1,827,256	$1,568,791
GAAP Total assets (1)	$44,686,703	$39,337,869	$26,410,144	$22,762,824	$19,968,894
Less:					
Intangible assets	—	—	—	—	601
Tangible assets (1)	$44,686,703	$39,337,869	$26,410,144	$22,762,824	$19,968,293
Risk-weighted assets (2)(3)	$25,919,594	$21,755,091	$16,901,501	$13,532,984	$11,837,902
Non-GAAP tangible common equity to tangible assets (1)	7.16 %	7.15 %	7.43 %	8.03 %	7.86 %
Non-GAAP tangible common equity to risk-weighted assets (1) (2)	12.34	12.93	11.61	13.50	13.25

Non-GAAP tangible common equity and tangible assets (dollars in thousands, except ratios)	Bank				
	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Tangible common equity (1)	$3,059,045	$2,399,411	$1,634,389	$1,588,344	$1,346,854
Tangible assets (1)	$44,045,967	$37,607,973	$24,849,484	$21,467,812	$18,758,813
Risk-weighted assets (2)(3)	$24,301,043	$21,450,480	$16,612,870	$13,177,887	$11,467,401
Tangible common equity to tangible assets (1)	6.95 %	6.38 %	6.58 %	7.40 %	7.18 %
Tangible common equity to risk-weighted assets (1)(2)	12.59	11.19	9.84	12.05	11.75

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01).

(2) Amounts and ratios as of December 31, 2015 reflect the adoption of the Basel III Capital Rules in effect beginning January 1, 2015. Amounts and ratios for prior periods represent the previous capital rules under Basel I.

(3) Our risk-weighted assets for 2012 reflect a refinement in our determination of risk rating for certain unfunded credit commitments related to the contractual borrowing base.

2015 compared to 2014

The tangible common equity to tangible assets ratio increased for SVB Financial and the Bank due to increases in total equity. See "SVBFG Stockholders' Equity above for further details on changes to the individual components of our equity balance.

For SVB Financial, the tangible common equity to risk-weighted assets ratio decreased due to increases in risk-weighted assets, as a result of the new Basel III regulatory requirements, partially offset by increases in common equity. For the Bank, the tangible common equity to risk-weighted assets ratio increased due to increases in tangible common equity, partially offset by increases in risk-weighted assets. These increases were a result of SVB Financial's contribution of capital to the Bank, partially offset by the impact on risk-weighted assets from the new Basel III regulatory requirements.

2014 compared to 2013

For both SVB Financial and the Bank, the tangible common equity to tangible assets ratios decreased due to increases in tangible assets. The growth in tangible assets exceeded the growth in equity, which primarily was a result of our growth in 2014 in investment securities and period-end loan balances. For both SVB Financial and the Bank, the tangible common equity to risk-weighted assets ratios increased due to increases in total equity, partially offset by increases in risk-weighted assets, which primarily reflects growth in our period-end loan balances.

83

Table of Contents

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit and commitments to invest in venture capital and private equity fund investments. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract. Please refer to the discussion of our off-balance sheet arrangements in Note 19-"Off-Balance Sheet Arrangements, Guarantees and Other Commitments" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

As of December 31, 2015, we, or the funds in which we have an ownership interest and/or control, had the following unfunded contractual obligations and commercial commitments:

	Payments Due By Period				
(Dollars in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
SVBFG contractual obligations:					
Borrowings	$1,571,602	$774,900	$48,350	$347,016	$401,336
Non-cancelable operating leases, net of income from subleases	188,410	21,260	43,799	43,923	79,428
Remaining unfunded commitments to other fund investments (1)	13,319	13,319	—	—	—
Commitments to low income housing tax credit funds	90,978	42,901	42,420	1,320	4,337
Other obligations	8,606	6,265	2,341	—	—
SVBFG unfunded commitments to our managed funds:					
SVB Strategic Investors Fund, LP (1)	688	688	—	—	—
SVB Strategic Investors Fund II, LP (1)	1,050	1,050	—	—	—
SVB Strategic Investors Fund III, LP (1)	1,275	1,275	—	—	—
SVB Strategic Investors Fund IV, LP (1)	2,325	2,325	—	—	—
Strategic Investors Fund V Funds (1)	142	142	—	—	—
SVB Capital - NT Growth Partners, LP (1)	1,340	1,340	—	—	—
Silicon Valley BancVentures, LP (1)	270	270	—	—	—
SVB Capital Partners II, LP (1)	162	162	—	—	—
Total obligations attributable to SVBFG	$1,880,167	$865,897	$136,910	$392,259	$485,101
Remaining unfunded commitments to venture capital and private equity funds by our consolidated managed funds of funds:					
SVB Strategic Investors Fund, LP (1)	$2,250	$2,250	$—	$—	$—
SVB Capital Preferred Return Fund, LP (1)	1,514	1,514	—	—	—
SVB Capital - NT Growth Partners, LP (1)	3,285	3,285	—	—	—
Total obligations to venture capital and private equity funds by our consolidated managed funds of funds	$7,049	$7,049	$—	$—	$—

	Amount of commitment expiring per period				
(Dollars in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Other commercial commitments:					
Total loan commitments available for funding	$14,135,195	$9,309,931	$3,841,342	$863,644	$120,278

Standby letters of credit	1,473,898	1,381,231	86,442	721	5,504
Commercial letters of credit	5,266	5,266	—	—	—

(1) See Note 8–"Investment Securities" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report, for further disclosure related to non-marketable and other securities. Subject to applicable regulatory requirements, including the Volcker Rule (See "Business - Supervision and Regulation" under Part I, Item 1 in this report), we make

84

Table of Contents

commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately-held companies. Commitments to invest in these funds are generally made for a 10-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years; however in certain cases, the funds may not call 100% of committed capital over the life of the fund. The actual timing of future cash requirements to fund these commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate.

Liquidity

The objective of liquidity management is to ensure that funds are available in a timely manner to meet our financial obligations, including, as necessary, paying creditors, meeting depositors' needs, accommodating loan demand and growth, funding investments, repurchasing securities and other operating or capital needs, without incurring undue cost or risk, or causing a disruption to normal operating conditions.

We regularly assess the amount and likelihood of projected funding requirements through a review of factors such as historical deposit volatility and funding patterns, present and forecasted market and economic conditions, individual client funding needs, and existing and planned business activities. Our Asset/Liability Committee ("ALCO"), which is a management committee, provides oversight to the liquidity management process and recommends policy guidelines for the approval of the Finance Committee of our Board of Directors, and courses of action to address our actual and projected liquidity needs.

Our deposit base is, and historically has been, our primary source of liquidity. Our deposit levels and cost of deposits may fluctuate from time to time due to a variety of factors, including market conditions, prevailing interest rates, changes in client deposit behaviors, availability of insurance protection, and our offering of deposit products. At December 31, 2015, our period-end total deposit balances increased by $4.8 billion to $39.1 billion, compared to $34.3 billion at December 31, 2014. The overall increase in deposit balances came primarily from our Accelerator/Early-stage and private equity/venture capital clients resulting from continued venture capital funding activity in 2015.

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, short-term investment securities maturing within one year, available-for-sale securities eligible and available for financing or pledging purposes with a maturity in excess of one year and anticipated near-term cash flows from investments.

On a stand-alone basis, SVB Financial's primary liquidity channels include dividends from the Bank, its portfolio of liquid assets, and its ability to raise debt and capital. The ability of the Bank to pay dividends is subject to certain regulations described in "Business—Supervision and Regulation—Restriction on Dividends" under Part I, Item 1 in this report.

Consolidated Summary of Cash Flows

Below is a summary of our average cash position and statement of cash flows for 2015, 2014 and 2013, respectively: (For further details, see our Consolidated Statements of Cash Flows under "Consolidated Financial Statements and Supplementary Data" under Part II, Item 8 in this report.)

	Year ended December 31,					
(Dollars in thousands)	2015		2014		2013	
Average cash and cash equivalents	$2,569,482		$2,697,926		$1,584,042	
Percentage of total average assets	6.3	%	8.2	%	6.8	%
Net cash provided by operating activities	$339,813		$255,517		$171,778	
Net cash used for investing activities	(6,496,352	)	(12,233,931	)	(2,838,988	)
Net cash provided by financing activities	5,848,782		12,250,649		3,197,006	
Net (decrease) increase in cash and cash equivalents	$(307,757	)	$272,235		$529,796	

Average cash and cash equivalents decreased by $0.1 billion to $2.6 billion in 2015, compared to $2.7 billion for 2014. In 2015, our average deposits increased $8.0 billion and were used to fund the $5.7 billion growth of our fixed

income securities portfolio and the $3.3 billion growth of our loan portfolio.

Table of Contents

2015

Cash provided by operating activities of $340 million in 2015 included net income before noncontrolling interests of $375 million. These net inflows were partially offset by $56.5 million of adjustments to reconcile net income to net cash, which consisted mostly of non-cash adjustments for our gains from AFS securities, gains from derivative instruments and amortization of deferred loan fees and non-cash expenses for our loan loss provision and depreciation/amortization.

Cash used for investing activities of $6.5 billion in 2015 included $7.5 billion for purchases of fixed income securities and $2.3 billion from the net increase in loans. These cash outflows were partially offset by $3.2 billion from sales, maturities and paydowns of our fixed income securities portfolio.

Cash provided by financing activities of $5.8 billion in 2015 included a $4.7 billion increase in deposits, a $767 million increase in short-term borrowings and $346 million from the issuance of our 3.50% Senior Notes in late January 2015.

Cash and cash equivalents at December 31, 2015 were $1.5 billion, compared to $1.8 billion at December 31, 2014.

2014

Cash provided by operating activities of $256 million in 2014 included net income before noncontrolling interests of $479 million, partially offset by non-cash net gains on investment securities of $267 million.

Cash used for investing activities of $12.2 billion in 2014 included $11.1 billion for purchases of fixed income securities and $3.5 billion from the net increase in loans. These cash outflows were partially offset by $2.2 billion from sales, maturities and paydowns of our fixed income securities portfolio.

Cash provided by financing activities of $12.3 billion in 2014 included an $11.9 billion increase in deposits and $435 million in net proceeds from our common stock offering in the second quarter of 2014.

Cash and cash equivalents at December 31, 2014 were $1.8 billion, compared to $1.5 billion at December 31, 2013.

2013

Cash provided by operating activities of $172 million in 2013 included net income before noncontrolling interests of $545 million, partially offset by non-cash net gains on investment securities of $419 million.

Cash used for investing activities of $2.8 billion in 2013 included $3.3 billion for purchases of available-for-sale securities and $1.9 billion from the net increase in loans. These cash outflows were partially offset by $2.4 billion from sales, maturities and paydowns of available-for-sale securities.

Cash provided by financing activities of $3.2 billion in 2013 included a $3.3 billion increase in deposits, partially offset by a decrease of $161 million from short-term borrowings, primarily due to pay-offs of Federal funds purchased during the year.

Cash and cash equivalents at December 31, 2013 were $1.5 billion, compared to $1.0 billion at December 31, 2012.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Market risk is defined as the risk of adverse fluctuations in the market value of financial instruments due to changes in market interest rates. Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our rate-sensitive assets and liabilities, widening or tightening of credit spreads, changes in the general level of market interest rates and changes in the shape and level of the benchmark LIBOR/SWAP yield curve. Additionally, changes in interest rates can influence the rate of principal prepayments on mortgage securities, which affects the rate of amortization of purchase premiums and discounts. Other market risks include foreign currency exchange risk and equity price risk. These risks are not considered significant interest rate sensitive risks and no separate quantitative information concerning them is presented herein.

Interest rate risk is managed by our ALCO. ALCO reviews the sensitivity of the market value of our assets and liabilities and 12-month forward looking net interest income to changes in interest rates, structural changes in investment and funding portfolios, loan and deposit activity and current market conditions. Adherence to relevant policies, which are approved by the Finance Committee of our Board of Directors, is monitored on an ongoing basis. Management of interest rate risk is carried out primarily through strategies involving our available-for-sale securities, available funding channels and capital market activities. In addition, our policies permit the use of off-balance sheet derivative instruments to assist in managing interest rate risk.

We utilize a simulation model to perform a sensitivity analysis on the economic value of equity and net interest income under a variety of interest rate scenarios, balance sheet forecasts and proposed strategies. The simulation model provides a dynamic assessment of interest rate sensitivity embedded in our balance sheet which measures the potential variability in forecasted results relating to changes in market interest rates over time. We review our interest rate risk position on a quarterly basis at a minimum.

Model Simulation and Sensitivity Analysis

One application of the aforementioned simulation model involves measurement of the impact of changes in market interest rates on our economic value of equity ("EVE"). EVE is defined as the market value of assets, less the market value of liabilities, adjusted for any off-balance sheet items. EVE is based on a snapshot of the balance sheet at a specific point in time. A second application of the simulation model measures the impact of changes in market interest rates on our net interest income ("NII") assuming a static balance sheet over a 12-month period following the period-end reporting date. Changes in market interest rates that affect us are principally short-term interest rates and include the following: (1) National Prime and SVB Prime rates; (2) 1-month and 3-month LIBOR; and (3) the Fed Funds target rate. Changes in these short-term rates impact interest earned on our variable rate loans, variable rate available-for-sale securities and balances held as cash and cash equivalents. Deposit pricing in the simulation model is generally associated with changes in short-term interest rates. However, modeled assumptions may differ from our actual pricing behavior in a rising rate environment depending on the market environment and business conditions.

The following table presents our EVE and NII sensitivity exposure at December 31, 2015 and December 31, 2014, related to an instantaneous and sustained parallel shift in market interest rates of 100 and 200 basis points.

Change in interest rates (basis points) (Dollars in thousands)	Estimated EVE	Estimated Increase/(Decrease) In EVE		Estimated NII	Estimated Increase/ (Decrease) In NII	
		Amount	Percent		Amount	Percent
December 31, 2015:						
+200	$6,007,061	$ 1,783,649	42.2 %	$1,454,889	$268,242	22.6 %
+100	5,166,410	942,998	22.3	1,318,584	131,937	11.1
—	4,223,412	—	—	1,186,647	—	—
-100	4,350,421	127,009	3.0	1,127,223	(59,424)	(5.0)
-200	4,548,417	325,005	7.7	1,095,854	(90,793)	(7.7)
December 31, 2014:						
+200	$6,201,773	$ 1,237,900	24.9 %	$1,242,321	$223,059	21.9 %
+100	5,598,887	635,014	12.8	1,124,643	105,381	10.3
—	4,963,873	—	—	1,019,262	—	—

-100	4,927,749	(36,124)	(0.7)	979,982	(39,280)	(3.9)
-200	5,119,636	155,763	3.1	953,556	(65,706)	(6.4)

87

Table of Contents

Economic Value of Equity

The estimated EVE in the preceding table is based on a combination of valuation methodologies including a discounted cash flow analysis and a multi-path lattice based valuation. Both methodologies use publicly available market interest rates. The model simulations and calculations are highly assumption-dependent and will change regularly as our asset/liability structure changes, as interest rate environments evolve, and as we change our assumptions in response to relevant market or business circumstances. These calculations do not reflect the changes that we anticipate or may make to reduce our EVE exposure in response to a change in market interest rates as a part of our overall interest rate risk management strategy.

As with any method of measuring interest rate risk, certain limitations are inherent in the method of analysis presented in the preceding table. The interest rate risk we are exposed to includes changes in the shape of the yield curve (yield curve risk), fluctuations in asset cash flows (prepayment risk) and differences between specific benchmark interest rates (basis risk). While we believe our model gives us a good understanding of these risks, it is important to note that no model fully captures all risks.

The EVE simulation assumes varying rates of deposit balance decay depending on the rate scenario. Because EVE is a discounted cash flow simulation from a specific point in time, the simulation does not include changes in new business volume growth assumptions needed to maintain a static balance sheet size throughout the simulation.

The results in the preceding table can be referenced as an estimate of sensitivity to changes in interest rates, but should not be relied upon as a precise indicator of actual results from changing market interest rates. Additionally, the resulting EVE and NII estimates are not intended to represent, and should not be construed to represent, the underlying value of assets and liabilities and the net interest income derived from them.

Our base case EVE at December 31, 2015 decreased from December 31, 2014 by $740 million as a result of balance sheet mix changes, as well as yield curve changes. A flattening yield curve due to higher rates at the short end of the yield curve and slightly lower rates at the long end relative to December 31, 2014 resulted in a net negative impact of $187 million on base EVE. Our liability balances grew by $6.1 billion in 2015, while asset balances grew just $5.3 billion. The balance sheet changes contributed an additional negative $553 million to the change in base EVE. EVE sensitivity increased in the simulated upward rate shock scenarios primarily due to the growth in non-maturity deposits which constitute the majority of liability balances. In the simulated downward interest rate shock scenarios, EVE sensitivity increased due to the flattening yield curve, resulting in the discount rates for non-interest bearing non-maturity deposits hitting floors in these model scenarios.

12-Month Net Interest Income Simulation

Our estimated 12-month NII at December 31, 2015 increased from December 31, 2014 by $167 million due to changes in both rates and balance sheet mix. A 25 bps rate increase by the Federal Open Market Committee in December 2015 contributed $49 million to the simulated NII forecast. We had $2.4 billion of loan growth in 2015, and the investment portfolio grew by $3.1 billion during that time. Non-interest bearing deposit balances grew by $6.3 billion accompanied by a decrease of $1.5 billion in interest-bearing deposits. The net impact of these balance sheet changes contributed an additional $118 million to the base 12-month NII forecast. NII sensitivity increased slightly in the interest rate shock scenarios due to a higher proportion of floating and variable rate assets relative to fixed rate assets at December 31, 2015 as compared to December 31, 2014. In the simulated downward rate shock scenarios, sensitivity also increased as variable rate loan and investment securities moved away from their floors due to the 25 bps rate increase.

The simulation model used in the above analysis embeds floors in our interest rate scenarios, which prevent model benchmark rates from moving below 0.0%. Our 12-month static balance sheet NII simulation assumes different rates of deposit balance decay for each interest rate scenario based on a long-term historical deposit study of our clients. In the static scenarios, loan and deposit runoff is replaced as needed to maintain a constant balance sheet. The deposit decay assumptions may change in future periods based on management discretion. Actual changes in our deposit pricing strategies may differ from our current model assumptions and may have an impact on our overall sensitivity.

Table of Contents

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
SVB Financial Group:

We have audited the accompanying consolidated balance sheets of SVB Financial Group and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2015. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
San Francisco, California
February 26, 2016

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value and share data)	December 31, 2015	2014
Assets		
Cash and cash equivalents	$1,503,257	$1,796,062
Available-for-sale securities, at fair value (cost of $16,375,941 and $13,497,945, respectively)	16,380,748	13,540,655
Held-to-maturity securities, at cost (fair value of $8,758,622 and $7,415,656, respectively)	8,790,963	7,421,042
Non-marketable and other securities (1) (2)	674,946	1,728,140
Total investment securities	25,846,657	22,689,837
Loans, net of unearned income	16,742,070	14,384,276
Allowance for loan losses	(217,613)	(165,359)
Net loans	16,524,457	14,218,917
Premises and equipment, net of accumulated depreciation and amortization	102,625	79,845
Accrued interest receivable and other assets (1)	709,707	553,208
Total assets	$44,686,703	$39,337,869
Liabilities and total equity		
Liabilities:		
Noninterest-bearing demand deposits	$30,867,497	$24,583,682
Interest-bearing deposits	8,275,279	9,759,817
Total deposits	39,142,776	34,343,499
Short-term borrowings	774,900	7,781
Other liabilities	639,094	483,493
Long-term debt	796,702	451,362
Total liabilities	41,353,472	35,286,135
Commitments and contingencies (Note 19 and Note 25)		
SVBFG stockholders' equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value, 150,000,000 shares authorized; 51,610,226 shares and 50,924,925 shares outstanding, respectively	52	51
Additional paid-in capital	1,189,032	1,120,350
Retained earnings (1)	1,993,646	1,649,967
Accumulated other comprehensive income	15,404	42,704
Total SVBFG stockholders' equity	3,198,134	2,813,072
Noncontrolling interests (2)	135,097	1,238,662
Total equity	3,333,231	4,051,734
Total liabilities and total equity	$44,686,703	$39,337,869

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2— "Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

(2) During the second quarter of 2015 we adopted new accounting guidance related to our consolidated variable interest entities (ASU 2015-02). Amounts prior to January 1, 2015 have not been revised for the adoption of this

guidance. See Note 2— "Summary of Significant Accounting Policies” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 of this report for additional details.

See accompanying notes to the consolidated financial statements.

90

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
(Dollars in thousands, except per share amounts)	2015 (2)	2014	2013
Interest income:			
Loans	$693,147	$610,945	$542,204
Investment securities:			
Taxable	344,646	271,371	180,162
Non-taxable	2,905	3,136	3,201
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	6,067	6,464	4,054
Total interest income	1,046,765	891,916	729,621
Interest expense:			
Deposits	5,447	12,114	9,128
Borrowings	34,893	23,207	23,149
Total interest expense	40,340	35,321	32,277
Net interest income	1,006,425	856,595	697,344
Provision for loan losses	97,629	59,486	63,693
Net interest income after provision for loan losses	908,796	797,109	633,651
Noninterest income:			
Gains on investment securities, net	89,445	267,023	419,408
Gains on derivative instruments, net	83,805	96,845	42,184
Foreign exchange fees	87,007	71,659	57,411
Credit card fees	56,657	41,792	32,461
Deposit service charges	46,683	39,937	35,948
Lending related fees	32,536	25,711	20,980
Letters of credit and standby letters of credit fees	20,889	15,649	14,716
Client investment fees	21,610	14,883	13,959
Other	34,162	(1,260)	36,139
Total noninterest income	472,794	572,239	673,206
Noninterest expense:			
Compensation and benefits	473,841	409,486	366,801
Professional services	82,839	94,377	76,178
Premises and equipment	51,927	49,716	45,935
Business development and travel	39,524	40,057	33,334
Net occupancy	34,674	30,004	24,937
FDIC and state assessments	25,455	19,206	12,784
Correspondent bank fees	13,415	13,118	12,142
(Reduction of) Provision for unfunded credit commitments	(1,946)	6,511	7,642
Other (1)	58,287	44,705	35,491
Total noninterest expense (1)	778,016	707,180	615,244
Income before income tax expense (1)	603,574	662,168	691,613
Income tax expense (1)	228,754	183,508	146,830
Net income before noncontrolling interests (1)	374,820	478,660	544,783
Net income attributable to noncontrolling interests	(30,916)	(214,790)	(330,266)
Net income available to common stockholders (1)	$343,904	$263,870	$214,517
Earnings per common share—basic (1)	$6.70	$5.39	$4.73

Earnings per common share—diluted (1)	6.62	5.31	4.67

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2— "Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

(2) During the second quarter of 2015 we adopted new accounting guidance related to our consolidated variable interest entities (ASU 2015-02). Amounts prior to January 1, 2015 have not been revised for the adoption of this guidance. See Note 2— "Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

See accompanying notes to the consolidated financial statements.

91

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Net income before noncontrolling interests (1) (2)	$374,820	$478,660	$544,783
Other comprehensive (loss) income, net of tax:			
Change in cumulative translation gains (losses):			
Foreign currency translation gains (losses)	2,570	10,982	(5,483)
Related tax (expense) benefit	(957)	(4,425)	2,179
Change in unrealized (losses) gains on available-for-sale securities:			
Unrealized holding (losses) gains	(36,702)	92,815	(259,193)
Related tax benefit (expense)	14,730	(37,383)	105,500
Reclassification adjustment for (gains) losses included in net income	(1,201)	18,598	(538)
Related tax expense (benefit)	481	(7,510)	218
Cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to held-to-maturity	—	37,700	—
Related tax expense	—	(15,178)	—
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity	(10,412)	(6,915)	—
Related tax benefit	4,191	2,784	—
Other comprehensive (loss) income, net of tax	(27,300)	91,468	(157,317)
Comprehensive income	347,520	570,128	387,466
Comprehensive income attributable to noncontrolling interests (2)	(30,916)	(214,790)	(330,266)
Comprehensive income attributable to SVBFG	$316,604	$355,338	$57,200

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2— "Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

(2) During the second quarter of 2015 we adopted new accounting guidance related to our consolidated variable interest entities (ASU 2015-02). Amounts prior to January 1, 2015 have not been revised for the adoption of this guidance. See Note 2— "Summary of Significant Accounting Policies" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

See accompanying notes to the consolidated financial statements.

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total SVBFG Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
Balance at December 31, 2012 (As Reported)	44,627,182	$45	$547,079	$1,174,878	$108,553	$1,830,555	$774,678	$2,605,233
Cumulative effect of adopting ASU 2014-01 (1)	—	—	—	(3,299)	—	(3,299)	—	(3,299)
Balance at December 31, 2012 (As Revised)	44,627,182	$45	$547,079	$1,171,579	$108,553	$1,827,256	$774,678	$2,601,934
Common stock issued under employee benefit plans, net of restricted stock cancellations	1,098,290	$1	$41,403	$—	$—	$41,404	$—	$41,404
Common stock issued under ESOP	74,946	—	5,166	—	—	5,166	—	5,166
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	5,658	—	—	5,658	—	5,658
Net income (1)	—	—	—	214,517	—	214,517	330,266	544,783
Capital calls and distributions, net	—	—	—	—	—	—	8,114	8,114
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	(154,013)	(154,013)	—	(154,013)
Foreign currency translation adjustments, net of tax	—	—	—	—	(3,304)	(3,304)	—	(3,304)
Share-based compensation expense	—	—	24,947	—	—	24,947	—	24,947
Other, net	—	—	3	1	—	4	—	4
Balance at December 31, 2013	45,800,418	$46	$624,256	$1,386,097	$(48,764)	$1,961,635	$1,113,058	$3,074,693
Common stock issued under employee benefit plans, net of	608,745	$—	$18,256	$—	$—	$18,256	$—	$18,256

restricted stock cancellations								
Common stock issued under ESOP	30,762	—	3,890	—	—	3,890	—	3,890
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	9,595	—	—	9,595	—	9,595
Net income (1)	—	—	—	263,870	—	263,870	214,790	478,660
Capital calls and distributions, net	—	—	—	—	—	—	(89,186)	(89,186)
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	66,520	66,520	—	66,520
Cumulative-effect for unrealized gains on securities transferred from AFS to HTM, net of tax	—	—	—	—	22,522	22,522	—	22,522
Amortization of unrealized gains on securities transferred from AFS to HTM, net of tax	—	—	—	—	(4,131)	(4,131)	—	(4,131)
Foreign currency translation adjustments, net of tax	—	—	—	—	6,557	6,557	—	6,557
Common stock issued in public offering	4,485,000	5	434,861	—	—	434,866	—	434,866
Share-based compensation expense	—	—	29,491	—	—	29,491	—	29,491
Other, net	—	—	1	—	—	1	—	1
Balance at December 31, 2014	50,924,925	$51	$1,120,350	$1,649,967	$42,704	$2,813,072	$1,238,662	$4,051,734
Common stock issued under employee benefit plans, net of restricted stock cancellations	657,876	$1	$18,897	$—	$—	$18,898	$—	$18,898
Common stock issued under ESOP	27,425	—	3,512	—	—	3,512	—	3,512
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	16,602	—	—	16,602	—	16,602

Deconsolidation of noncontrolling interest upon adoption of ASU 2015-02 (1)	—	—	—	—	—	—	(1,069,437)	(1,069,437)
Net income	—	—	—	343,904	—	343,904	30,916	374,820
Capital calls and distributions, net	—	—	—	—	—	—	(65,044)	(65,044)
Net change in unrealized gains and losses on AFS securities, net of tax	—	—	—	—	(22,692)	(22,692)	—	(22,692)
Amortization of unrealized gains on securities transferred from AFS to HTM, net of tax	—	—	—	—	(6,221)	(6,221)	—	(6,221)
Foreign currency translation adjustments, net of tax	—	—	—	—	1,613	1,613	—	1,613
Share-based compensation expense	—	—	29,671	—	—	29,671	—	29,671
Other, net	—	—		(225)	—	(225)	—	(225)
Balance at December 31, 2015	51,610,226	$52	$1,189,032	$1,993,646	$15,404	$3,198,134	$135,097	$3,333,231

(1) See Note 2— "Summary of Significant Accounting Policies-Adoptions of New Accounting Standards" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report for additional details.

See accompanying notes to the consolidated financial statements.

93

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Cash flows from operating activities:			
Net income before noncontrolling interests (1)	$374,820	$478,660	$544,783
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	97,629	59,486	63,693
(Reduction of) provision for unfunded credit commitments	(1,946)	6,511	7,642
Changes in fair values of derivatives, net	(53,470)	(22,139)	(31,508)
Gains on investment securities, net	(89,445)	(267,023)	(419,408)
Depreciation and amortization (1)	40,008	39,345	36,260
Pre-tax (gain) loss on SVBIF sale transaction	(1,287)	13,934	—
Amortization of premiums and discounts on investment securities, net	18,271	25,311	29,774
Amortization of share-based compensation	32,239	29,545	25,413
Amortization of deferred loan fees	(89,384)	(82,724)	(73,008)
Deferred income tax (benefit) expense (1)	(9,133)	(43,110)	15,050
Changes in other assets and liabilities:			
Accrued interest receivable and payable, net	(8,397)	(26,642)	(3,241)
Accounts receivable and payable, net	(24,029)	(302)	(21)
Income tax receivable and payable, net	(9,857)	(4,804)	(24,811)
Accrued compensation	30,293	3,707	22,925
Foreign exchange spot contracts, net	(31,159)	25,725	2,086
Other, net	64,660	20,037	(23,851)
Net cash provided by operating activities	339,813	255,517	171,778
Cash flows from investing activities:			
Purchases of available-for-sale securities	(4,586,680)	(8,462,071)	(3,336,476)
Proceeds from sales of available-for-sale securities	8,054	30,398	14,753
Proceeds from maturities and pay downs of available-for-sale securities	1,704,918	1,569,173	2,428,023
Purchases of held-to-maturity securities	(2,888,805)	(2,612,848)	—
Proceeds from maturities and paydowns of held-to-maturity securities	1,495,362	598,454	—
Purchases of non-marketable securities (cost and equity method accounting)	(32,427)	(60,202)	(24,847)
Proceeds from sales and distributions of non-marketable securities (cost and equity method accounting)	89,826	59,442	58,828
Purchases of non-marketable and other securities (fair value accounting)	(7,028)	(275,640)	(149,707)
Proceeds from sales and distributions of non-marketable and other securities (fair value accounting)	48,627	436,170	132,931
Net increase in loans	(2,335,153)	(3,480,531)	(1,943,650)
Proceeds from recoveries of charged-off loans	5,593	6,155	11,161
Purchases of premises and equipment	(53,918)	(42,431)	(30,004)
Effect of deconsolidation due to adoption of ASU 2015-02	15,995	—	—
Net proceeds from SVBIF sale transaction (2)	39,284	—	—
Net cash used for investing activities	(6,496,352)	(12,233,931)	(2,838,988)
Cash flows from financing activities:			
Net increase in deposits	4,719,738	11,870,520	3,296,527

Increase (decrease) in short-term borrowings	767,119	2,701	(161,030)
(Distributions to noncontrolling interests), net of contributions from noncontrolling interests	(23,518)	(89,186)	8,114
Proceeds from issuance of common stock, ESPP and ESOP	22,410	22,146	46,569
Tax benefit from stock exercises	16,602	9,602	6,826
Proceeds from issuance of 3.50% Senior Notes	346,431	—	—
Net proceeds from public equity offering	—	434,866	—
Net cash provided by financing activities	5,848,782	12,250,649	3,197,006
Net (decrease) increase in cash and cash equivalents	(307,757)	272,235	529,796
Cash and cash equivalents at beginning of period (2)	1,811,014	1,538,779	1,008,983
Cash and cash equivalents at end of period (2)	$1,503,257	$1,811,014	$1,538,779
Supplemental disclosures:			
Cash paid during the period for:			
Interest	$35,280	$35,181	$31,913
Income taxes	220,484	208,558	142,231
Noncash items during the period:			
Changes in unrealized gains and losses on available-for-sale securities, net of tax	$(22,692)	$66,520	$(154,013)
Distributions of stock from investments (3)	64,503	20,621	1,116
Transfers from available-for-sale securities to held-to-maturity	—	5,418,572	—

(1) Cash flows for the years ended December 31, 2014 and 2013 were revised to reflect the retrospective application of our adoption of ASU 2014-01.

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

(3) For the year ended December 31, 2015, includes distributions to our noncontrolling interests of $41.5 million.

See accompanying notes to the consolidated financial statements.

94

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

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

We offer commercial banking products and services through our principal subsidiary, the Bank, which is a California-chartered bank founded in 1983 and a member of the Federal Reserve System. Through its subsidiaries, the Bank also offers investment advisory, asset management, private wealth management and brokerage services. We also offer non-banking products and services, such as funds management, private equity/venture capital investment and business valuation services, through our other subsidiaries and divisions. We primarily focus on serving corporate clients in the following niches: technology, life science/healthcare, private equity/venture capital and premium wine. Our corporate clients range widely in terms of size and stage of maturity. Additionally, we focus on cultivating strong relationships with firms within the venture capital and private equity community worldwide, many of which are also our clients and may invest in our corporate clients.

Headquartered in Santa Clara, California, we operate in centers of innovation in the United States and around the world.

For reporting purposes, SVB Financial Group has three operating segments for which we report financial information in this report: Global Commercial Bank, SVB Private Bank, and SVB Capital. Financial information, results of operations and a description of the services provided by our operating segments are set forth in Note 22-"Segment Reporting" in this report.

2. Summary of Significant Accounting Policies

Use of Estimates and Assumptions

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

Principles of Consolidation and Presentation

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

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

95

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

receive benefits of a VIE that could potentially be significant to a VIE. Under this analysis, we also evaluate kick-out rights and other participating rights, which could provide us a controlling financial interest. The primary beneficiary of a VIE is required to consolidate the VIE.

ASU 2015-02 also changed how we evaluate fees paid to managers of our limited partnership investments. Under the new guidance, we exclude those fee arrangements that are not deemed to be variable interests from the analysis of our interests in our investments in VIEs and the determination of a primary beneficiary, if any. Fee arrangements based on terms that are customary and commensurate with the services provided are deemed not to be variable interests and are, therefore, excluded.

Our consolidated financial statements include the accounts of SVB Financial Group and consolidated entities. We consolidate voting entities in which we have control through voting interests. We determine whether we have a controlling financial interest in a VIE by determining if we have the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and whether we have significant variable interests. Generally, we have significant variable interests if our commitments to a limited partnership investment represent a significant amount of the total commitments to the entity. We also evaluate the impact of related parties on our determination of variable interests in our consolidation conclusions. We consolidate VIEs in which we are the primary beneficiary based on a controlling financial interest. If we are not the primary beneficiary of a VIE, we record our pro-rata interests or our cost basis in the VIE, as appropriate, based on other accounting guidance within GAAP.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash balances due from banks, interest-earning deposits, Federal Reserve deposits, federal funds sold, securities purchased under agreements to resell and other short-term investment securities. For the consolidated statements of cash flows, we consider cash equivalents to be investments that are readily convertible to known amounts of cash, so near to their maturity that they present an insignificant risk of change in fair value due to changes in market interest rates, and purchased in conjunction with our cash management activities.

Investment Securities

Available-for-Sale Securities

Our available-for-sale securities portfolio is a fixed income investment portfolio that is managed to earn an appropriate portfolio yield over the long-term while maintaining sufficient liquidity and credit diversification as well as addressing our asset/liability management objectives. Unrealized gains and losses on available-for-sale securities, net of applicable taxes, are reported in accumulated other comprehensive income, which is a separate component of SVBFG's stockholders' equity, until realized.

We analyze available-for-sale securities for other-than-temporary impairment each quarter. Market valuations represent the current fair value of a security at a specified point in time and incorporates the risk of timing of interest due and the return of principal over the contractual life of each security. Gains and losses on securities are realized when there is a sale of the security prior to maturity. A credit downgrade represents an increased level of risk of other-than-temporary impairment, and as a part of our consideration of recording an other-than-temporary impairment we will assess the issuer's ability to service the debt and to repay the principal at contractual maturity.

We apply the other-than-temporary impairment standards of ASC 320, Investments-Debt and Equity Securities. For our debt securities, we have the intent and ability to hold these securities until we recover our cost less any credit-related loss. We separate the amount of the other-than-temporary impairment, if any, into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's amortized cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other comprehensive income.

We consider numerous factors in determining whether a credit loss exists and the period over which the debt security is expected to recover. The following list is not meant to be all inclusive. All of the following factors are considered:

- The length of time and the extent to which the fair value has been less than the amortized cost basis (severity and duration);

96

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

- Adverse conditions specifically related to the security, an industry, or geographic area; for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. Examples of those changes include any of the following:
  Changes in technology;
  The discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security; and
  Changes in the quality of the credit enhancement.

- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency; and
- Recoveries or additional declines in fair value after the balance sheet date.

In accordance with ASC 310-20, Receivables-Nonrefundable Fees and Other Costs, we use estimates of future principal prepayments, provided by third-party market-data vendors, in addition to actual principal prepayment experience to calculate the constant effective yield necessary to apply the effective interest method in the amortization of purchase discounts or premiums on mortgage-backed securities and fixed rate collateralized mortgage obligations (“CMO”). The accretion and amortization of discounts and premiums, respectively, are included in interest income over the contractual terms of the underlying securities replicating the effective interest method.

Held-to-Maturity Securities

Debt securities purchased in which we have the positive intent and ability to hold to its maturity are classified as held-to-maturity securities and are recorded at amortized cost.

During the second quarter of 2014, we re-designated certain securities from the classification of "available-for-sale" ("AFS") to "held-to-maturity" ("HTM"). Transfers of investment securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. The unrealized gains (losses), net of tax, are retained in other comprehensive income, and the carrying value of the held-to-maturity securities are amortized over the life of the securities in a manner consistent with the amortization of a premium or discount. Our decision to re-designate the securities was based on our ability and intent to hold these securities to maturity.

Non-Marketable and Other Securities

Non-marketable and other securities include investments in venture capital and private equity funds, debt funds, direct equity investments in companies and low income housing tax credit funds. A majority of these investments are managed through our SVB Capital funds business in funds of funds and direct venture funds. Our accounting for investments in non-marketable and other securities depends on several factors, including the level of ownership, power to control and the legal structure of the subsidiary making the investment. As further described below, we base our accounting for such securities on: (i) fair value accounting, (ii) equity method accounting, (iii) cost method accounting, and (iv) the proportional amortization method which is used only for low income housing tax credit funds.

Fair Value Accounting

Our managed funds are investment companies under the AICPA Audit and Accounting Guide for Investment Companies (codified in ASC 946) and accordingly, these funds report their investments at estimated fair value, with unrealized gains and losses resulting from changes in fair value reflected as investment gains or losses in our consolidated statements of income. Our non-marketable and other securities recorded pursuant to fair value accounting consist of our investments through the following funds:

- Funds of funds; which make investments in venture capital and private equity funds;
- Direct venture funds; which make equity investments in privately held companies.

97

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of our ownership interests in the investments held under fair value accounting as of December 31, 2015 is presented in the following table:

Limited partnership	Company Direct and Indirect Ownership in Limited Partnership	
Managed funds of funds		
SVB Strategic Investors Fund, LP	12.6	%
SVB Capital Preferred Return Fund, LP	20.0	
SVB Capital—NT Growth Partners, LP	33.0	
Other private equity fund	58.2	
Managed direct venture funds		
Silicon Valley BancVentures, LP	10.7	

The general partner interests of these funds are controlled, and in some cases, owned by SVB Financial. The limited partners of these funds do not have substantive participating or kick-out rights. Therefore, these funds are consolidated and any gains or losses resulting from changes in the estimated fair value of the investments are recorded as investment gains or losses in our consolidated net income.

Under fair value accounting, investments are carried at their estimated fair value based on financial information obtained as the general partner of the fund or obtained from the funds' respective general partner. For direct private company investments, valuations are based upon consideration of a range of factors including, but not limited to, the price at which the investment was acquired, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, exit strategies, and financing transactions subsequent to the acquisition of the investment. For direct equity investments in public companies, valuations are based on quoted market prices less a discount if the securities are subject to certain sales restrictions. Sales restriction discounts generally range from 10% to 20% depending on the duration of the sale restrictions which typically range from 3 to 6 months. The valuation of non-marketable securities in shares of private company capital stock and the valuation of other securities in shares of public company stock with certain sales restrictions is subject to significant judgment. The inherent uncertainty in the process of valuing securities for which a ready market does not exist may cause our estimated values of these securities to differ significantly from the values that would have been derived had a ready market for the securities existed, and those differences could be material.

For our fund investments, we utilize the net asset value as obtained from the general partners of the fund investments as the funds do not have a readily determinable fair value. The general partners of our fund investments prepare their financial statements using guidance consistent with fair value accounting. We account for differences between our measurement date and the date of the fund investment's net asset value by using the most recent available financial information from the investee general partner, for example September 30th, for our December 31st consolidated financial statements. We adjust the value of our investments for any contributions paid, distributions received from the investment, and known significant fund transactions or market events about which we are aware through information provided by the fund managers or from publicly available transaction data during the reporting period.

Gains or losses resulting from changes in the estimated fair value of the investments and from distributions received are recorded as gains on investment securities, net, a component of noninterest income. The portion of any investment gains or losses attributable to the limited partners is reflected as net income attributable to noncontrolling interests and adjusts our net income to reflect its percentage ownership.

Equity Method

Our equity method non-marketable securities consist of investments in venture capital and private equity funds, privately-held companies, debt funds, and joint ventures. Our equity method non-marketable securities and related accounting policies are described as follows:

•

Equity securities, such as preferred or common stock in privately-held companies in which we hold a voting interest of at least 20 percent, or in which we have the ability to exercise significant influence over the investees' operating and financial policies through board involvement or other influence, are accounted for under the equity method.

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

- Investments in limited partnerships in which we hold voting interests of more than 5 percent, or in which we have the ability to exercise significant influence over the partnerships' operating and financial policies, are accounted for using the equity method.
- Our China joint venture partnership, for which we have 50.0 percent ownership, is accounted for under the equity method.

We recognize our proportionate share of the results of operations of these equity method investees in our results of operations, based on the most current financial information available from the investee. We review our investments accounted for under the equity method at least quarterly for possible other-than-temporary impairment. Our review typically includes an analysis of facts and circumstances for each investment, the expectations of the investment's future cash flows and capital needs, variability of its business and the company's exit strategy. For our fund investments, we utilize the net asset value per share as provided by the general partners of the fund investments. We account for differences between our measurement date and the date of the fund investment's net asset value by using the most recent available financial information from the investee general partner, for example September 30th, for our December 31st consolidated financial statements. We adjust the value of our investments for any contributions paid, distributions received from the investment, and known significant fund transactions or market events about which we are aware through information provided by the fund managers or from publicly available transaction data during the reporting period.

We reduce our investment value when we consider declines in value to be other-than-temporary and recognize the estimated loss as a loss on investment securities, a component of noninterest income.

Cost Method

Our cost method non-marketable securities and related accounting policies are described as follows:

- Equity securities, such as preferred or common stock in privately-held companies in which we hold an ownership interest in which we do not have the ability to exercise significant influence over the investees' operating and financial policies, are accounted for under the cost method.
- Investments in limited partnerships in which we hold voting interests of less than 5 percent and in which we do not have the ability to exercise significant influence over the partnerships' operating and financial policies, are accounted for under the cost method. These non-marketable securities include investments in venture capital and private equity funds.

We record these investments at cost and recognize distributions or returns received from net accumulated earnings of the investee since the date of acquisition as income. Our share of net accumulated earnings of the investee after the date of investment are recognized in consolidated net income only to the extent distributed by the investee. Distributions or returns received in excess of accumulated earnings are considered a return of investment and are recorded as reductions in the cost basis of the investment.

We review our investments accounted for under the cost method at least quarterly for possible other-than-temporary impairment. Our review typically includes an analysis of facts and circumstances of each investment, the expectations of the investment's future cash flows and capital needs, variability of its business and the company's exit strategy. To help determine impairment, if any, for our fund investments, we utilize the net asset value per share as provided by the general partners of the fund investments.

We reduce our investment value when we consider declines in value to be other-than-temporary and recognize the estimated loss as a loss on investment securities, a component of noninterest income.

Gains or losses on cost method investment securities that result from a portfolio company being acquired by a publicly traded company are determined using the fair value of the consideration received when the acquisition occurs. The resulting gains or losses are recognized in consolidated net income in the period of acquisition.

Proportional Amortization Method

In order to fulfill our responsibilities under the Community Reinvestment Act, we invest as a limited partner in low income housing partnerships that operate qualified affordable housing projects and generate tax benefits, including federal low income housing tax credits, for investors. The partnerships are deemed to be VIEs because they do not

have sufficient equity investment at risk and are structured with non-substantive voting rights. We are not the primary beneficiary of the VIEs and do not consolidate

99

---

them. Our investments in low income housing partnerships are recorded in non-marketable and other securities within our investment securities portfolio on the consolidated balance sheet. As a practical expedient, we amortize the investment in proportion to the allocated tax benefits under the proportional amortization method of accounting and present such benefits net of investment amortization in income tax expense.

Loans

Loans are reported at the principal amount outstanding, net of unearned loan fees. Unearned loan fees reflect unamortized deferred loan origination and commitment fees net of unamortized deferred loan origination costs. In addition to cash loan fees, we often obtain equity warrant assets that give us an option to purchase a position in a client company's stock in consideration for providing credit facilities. The grant date fair values of these equity warrant assets are deemed to be loan fees and are deferred as unearned income and recognized as an adjustment of loan yield through loan interest income. The net amount of unearned loan fees is amortized into loan interest income over the contractual terms of the underlying loans and commitments using the constant effective yield method, adjusted for actual loan prepayment experience, or the straight-line method, as applicable.

Allowance for Loan Losses

The allowance for loan losses considers credit risk and is established through a provision for loan losses charged to expense. Our allowance for loan losses is established for estimated loan losses that are probable but not yet realized. Our evaluation process is designed to determine that the allowance for loan losses is appropriate at the balance sheet date. The process of estimating loan losses is inherently imprecise.

We maintain a systematic process for the evaluation of individual loans and pools of loans for inherent risk of loan losses. At the time of approval of a new loan, a Credit risk rating is assigned a Credit Risk Rating and industry niche. 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. The credit risk ratings for each loan are monitored and updated on an ongoing basis. This Credit Risk Rating process includes, but is not limited to, consideration of such factors as payment status, the financial condition and operating performance of the borrower, borrower compliance with loan covenants, underlying collateral values and performance trends, the degree of access to additional capital, the presence of credit enhancements such as third party guarantees (where applicable), the degree to which the borrower is sensitive to external factors, the depth and experience of the borrower's management team, potential loan concentrations, and general economic conditions. Our policies require a committee of senior management to review, at least quarterly, credit relationships with a credit risk rating of 5 through 9 that exceed specific dollar values. Our review process evaluates the appropriateness of the credit risk rating and allocation of the allowance for loan losses, as well as other account management functions. The allowance for loan losses is determined based on a qualitative analysis and a formula allocation for similarly risk-rated loans by portfolio segment and individually for impaired loans. The formula allocation provides the average loan loss experience for each portfolio segment, which considers our quarterly historical loss experience since the year 2000, both by risk-rating category and client industry sector. The resulting loan loss factors for each risk-rating category and client industry sector are ultimately applied to the respective period-end client loan balances for each corresponding risk-rating category by client industry sector to provide an estimation of the allowance for loan losses. The probable loan loss experience for any one year period of time is reasonably expected to be greater or less than the average as determined by the loss factors. As such, management applies a qualitative allocation to the results of the aforementioned model to ascertain the total allowance for loan losses. This qualitative allocation is based on management's assessment of the risks that may lead to a future loan loss experience different from our historical loan loss experience. Based on management's prediction or estimate of changing risks in the lending environment, the qualitative allocation may vary significantly from period to period and includes, but is not limited to, consideration of the following factors:

- Changes in lending policies and procedures, including underwriting standards and collections, and charge-off and recovery practices;
-

Changes in national and local economic business conditions, including the market and economic condition of our clients' industry sectors;
- Changes in the nature of our loan portfolio;
- Changes in experience, ability, and depth of lending management and staff;
- Changes in the trend of the volume and severity of past due and classified loans;
- Changes in the trend of the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications;

100

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

- Reserve floor for portfolio segments that would not draw a minimum reserve based on the lack of historical loan loss experience;
- Reserve for large funded loan exposure; and
- Other factors as determined by management from time to time.

While the evaluation process of our allowance for loan losses uses historical and other objective information, the classification of loans and the establishment of the allowance for loan losses rely, to a great extent, on the judgment and experience of our management.

Reserve for Unfunded Credit Commitments

We record a liability for probable and estimable losses associated with our unfunded credit commitments being funded and subsequently being charged off. Each quarter, every unfunded client credit commitment is allocated to a credit risk-rating in accordance with each client's credit risk rating. We use the historical loan loss factors described under our allowance for loan losses to calculate the loan loss experience if unfunded credit commitments are funded. Separately, we use historical trends to calculate a probability of an unfunded credit commitment being funded. We apply the loan funding probability factor to risk-factor adjusted unfunded credit commitments by credit risk-rating to derive the reserve for unfunded credit commitments, similar to funded loans. The reserve for unfunded credit commitments also includes certain qualitative allocations as deemed appropriate by our management. We include the reserve for unfunded credit commitments in other liabilities and the related provision in other expenses.

Uncollectible Loans and Write-offs

Our charge-off policy applies to all loans, regardless of portfolio segment. Commercial loans are considered for a full or partial charge-off in the event that principal or interest is over 180 days past due and the loan lacks sufficient collateral and it is not in the process of collection, provided that a loss event has been defined and the charge-off is consistent with GAAP. Consumer loans are considered for a full or partial charge-off in the event that principal interest is over 120 days past due and the loan lacks sufficient collateral and it is not in the process of collection, provided that a loss event has been defined and the charge-off is consistent with GAAP. We also consider writing off loans in the event of any of the following circumstances: 1) the loan, or a portion of the loan is deemed uncollectible due to: a) the borrower's inability to make recurring payments, b) material changes in the borrower's financial condition, c) the expected sale of all or a portion of the borrower's business is insufficient to repay the loan in full, or 2) the loan has been identified for charge-off by regulatory authorities.

Troubled Debt Restructurings

A TDR arises from the modification of a loan where we have granted a concession to the borrower related to the borrower's financial difficulties that we would not have otherwise considered for economic or legal reasons. These concessions may include: (1) deferral of payment for more than an insignificant period of time that does not include sufficient offsetting borrower concessions; (2) interest rate reductions; (3) extension of the maturity date outside of ordinary course extension; (4) principal forgiveness; and or (5) reduction of accrued interest.

We use the factors in ASC 310-40, Receivables, Troubled Debt Restructurings by Creditors, to help determine when a borrower is experiencing financial difficulty, and when we have granted a concession, both of which must be present for a restructuring to meet the criteria of a TDR. If we determine that a TDR exists, we measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, we may also measure impairment based on a loan's observable market price, or the fair value of the collateral less selling costs if the loan is a collateral-dependent loan.

Impaired Loans

A loan is considered impaired when, based upon currently known information, it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the agreement. On a quarterly basis, we review our loan portfolio for impairment. Within each class of loans, we review individual loans for impairment based on credit risk ratings. Loans risk-rated 5 through 7 are performing loans; however, we consider them as demonstrating higher risk, which requires more frequent review of the individual exposures; these translate to an internal rating of "Performing (Criticized)" and could be classified as a performing impaired loan.

101

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For each loan identified as impaired, we measure the impairment based upon the present value of expected future cash flows discounted at the loan's effective interest rate. In limited circumstances, we may measure impairment based on the loan's observable market price or the fair value of the collateral less selling costs if the loan is collateral dependent. Impaired collateral dependent loans will have independent appraisals completed and accepted at least annually. The fair value of the collateral will be determined by the most recent appraisal, as adjusted to reflect a reasonable marketing period for the sale of the asset(s) and an estimate of reasonable selling expenses.

If it is determined that the value of an impaired loan is less than the recorded investment in the loan, net of previous charge-offs and payments collected, we recognize impairment through the allowance for loan losses as determined by our analysis.

Nonaccrual Loans

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); or when we have determined, based upon currently known information, that the timely collection of principal or interest is not probable.

When a loan is placed on nonaccrual status, the accrued interest and fees are reversed against interest income and the loan is accounted for using the cost recovery method thereafter until qualifying for return to accrual status. Historically, loans that have been placed on nonaccrual status have remained as nonaccrual loans until the loan is either charged-off, or the principal balances have been paid off. For a loan to be returned to accrual status, all delinquent principal and interest must become current in accordance with the terms of the loan agreement and future collection of remaining principal and interest must be deemed probable. We apply a cost recovery method in which all cash received is applied to the loan principal until it has been collected. Under this approach, interest income is recognized after total cash flows received exceed the recorded investment at the date of initial nonaccrual. All of our nonaccrual loans have credit risk ratings of 8 or 9 and are classified under the nonperforming impaired category.

Standby Letters of Credit

We recognize a liability at the inception of a standby letter of credit equivalent to the premium or the fee received for such guarantee. This fee is recognized in noninterest income over the commitment period using the straight-line method.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or the terms of the related leases, whichever is shorter. The maximum estimated useful lives by asset classification are as follows:

Leasehold improvements	Lesser of lease term or asset life
Furniture and equipment	7 years
Computer software	3-7 years
Computer hardware	3-5 years

We capitalize the costs of computer software developed or obtained for internal use, including costs related to developed software, purchased software licenses and certain implementation costs.

For property and equipment that is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in noninterest expense in consolidated net income.

Lease Obligations

We lease all of our properties. At the inception of the lease, each property is evaluated to determine whether the lease will be accounted for as an operating or capital lease. For leases that contain rent escalations or landlord incentives, we record the total rent payable during the lease term, using the straight-line method over the term of the lease and record the difference between the minimum rents paid and the straight-line rent as lease obligations. We had no capitalized lease obligations at December 31, 2015 and 2014.

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair Value Measurements
Our available-for-sale securities, derivative instruments and certain marketable, non-marketable and other securities are financial instruments recorded at fair value on a recurring basis. We make estimates regarding valuation of assets and liabilities measured at fair value in preparing our consolidated financial statements.
Fair Value Measurement-Definition and Hierarchy
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the “exit price”) in an orderly transaction between market participants at the measurement date. There is a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable and the significance of those inputs in the fair value measurement. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data and views of market participants. The three levels for measuring fair value are based on the reliability of inputs and are as follows:
Level 1
Fair value measurements based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment. Assets utilizing Level 1 inputs include U.S. Treasury securities, exchange-traded equity securities and certain marketable securities accounted for under fair value accounting.
Level 2
Fair value measurements based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Valuations for the available-for-sale securities are provided by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or average of quoted market prices obtained from independent external brokers. We perform a monthly analysis on the values received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends and monitoring of trading volumes. Additional corroboration, such as obtaining a non-binding price from a broker, may be obtained depending on the frequency of trades of the security and the level of liquidity or depth of the market. We ensure prices received from independent brokers represent a reasonable estimate of the fair value through the use of observable market inputs including comparable trades, yield curve, spreads and, when available, market indices. As a result of this analysis, if the Company determines that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. Below is a summary of the significant inputs used for each class of Level 2 assets and liabilities:
U.S. agency debentures: Fair value measurements of U.S. agency debentures are based on the characteristics specific to bonds held, such as issuer name, issuance date, coupon rate, maturity date and any applicable issuer call option features. Valuations are based on market spreads relative to similar term benchmark market interest rates, generally U.S. Treasury securities.
Agency-issued mortgage-backed securities: Agency-issued mortgage-backed securities are pools of individual conventional mortgage loans underwritten to U.S. agency standards with similar coupon rates, tenor, and other attributes such as geographic location, loan size and origination vintage. Fair value measurements of these securities are based on observable price adjustments relative to benchmark market interest rates taking into consideration estimated loan prepayment speeds.
Agency-issued collateralized mortgage obligations: Agency-issued collateralized mortgage obligations are structured into classes or tranches with defined cash flow characteristics and are collateralized by U.S. agency-issued mortgage pass-through securities. Fair value measurements of these securities incorporate similar characteristics of mortgage pass-through securities such as coupon rate, tenor, geographic location, loan size and origination vintage, in addition to incorporating the effect of estimated prepayment speeds on the cash flow structure of the class or tranche. These

measurements incorporate observable market spreads over an estimated average life after considering the inputs listed above.

Agency-issued commercial mortgage-backed securities: Fair value measurements of these securities are based on spreads to benchmark market interest rates (usually U.S. Treasury rates or rates observable in the swaps market), prepayment speeds, loan default rate assumptions and loan loss severity assumptions on underlying loans.

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Municipal bonds and notes: Bonds issued by municipal governments generally have stated coupon rates, final maturity dates and are subject to being called ahead of the final maturity date at the option of the issuer. Fair value measurements of these securities are priced based on spreads to other municipal benchmark bonds with similar characteristics; or, relative to market rates on U.S. Treasury bonds of similar maturity.
Interest rate derivative assets and liabilities: Fair value measurements of interest rate derivatives are priced considering the coupon rate of the fixed leg of the contract and the variable coupon on the floating leg of the contract. Valuation is based on both spot and forward rates on the swap yield curve and the credit worthiness of the contract counterparty.
Foreign exchange forward and option contract assets and liabilities: Fair value measurements of these assets and liabilities are priced based on spot and forward foreign currency rates and option volatility assumptions.
Equity warrant assets (public portfolio): Fair value measurements of equity warrant assets of publicly-traded portfolio companies are valued based on the Black-Scholes option pricing model. The model uses the price of publicly-traded companies (underlying stock price), stated strike prices, warrant expiration dates, the risk-free interest rate and market-observable option volatility assumptions.
Level 3
The fair value measurement is derived from valuation techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions we believe market participants would use in pricing the asset. Below is a summary of the valuation techniques used for each class of Level 3 assets:
Other venture capital investments: Fair value measurements are based on consideration of a range of factors including, but not limited to, the price at which the investment was acquired, the term and nature of the investment, local market conditions, values for comparable securities, and as it relates to the private company, the current and projected operating performance, exit strategies, and financing transactions subsequent to the acquisition of the investment. The significant unobservable inputs used in the fair value measurement include the information about each portfolio company, including actual and forecasted results, cash position, recent or planned transactions and market comparable companies. Significant changes to any one of these inputs in isolation could result in a significant change in the fair value measurement, however, we generally consider all factors available through ongoing communication with the portfolio companies and venture capital fund managers to determine whether there are changes to the portfolio company or the environment that indicate a change in the fair value measurement.
Other securities: Fair value measurements of equity securities of public companies are priced based on quoted market prices less a discount if the securities are subject to certain sales restrictions. Certain sales restriction discounts generally range from 10% to 20% depending on the duration of the sale restrictions which typically range from 3 to 6 months.
Equity warrant assets (public portfolio): Fair value measurements of equity warrant assets of publicly-traded portfolio companies are valued based on the Black-Scholes option pricing model. The model uses the price of publicly-traded companies (underlying stock price), stated strike prices, warrant expiration dates, the risk-free interest rate and market-observable option volatility assumptions. Modeled asset values are further adjusted by applying a discount of up to 20% for certain warrants that have certain sales restrictions or other features that indicate a discount to fair value is warranted. As sale restrictions are lifted, discounts are adjusted downward to zero once all restrictions expire or are removed.
Equity warrant assets (private portfolio): Fair value measurements of equity warrant assets of private portfolio companies are priced based on a modified Black-Scholes option pricing model to estimate the asset value by using stated strike prices, option expiration dates, risk-free interest rates and option volatility assumptions. Option volatility assumptions used in the modified Black-Scholes model are based on public market indices whose members operate in similar industries as companies in our private company portfolio. Option expiration dates are modified to account for estimates to actual life relative to stated expiration. Overall model asset values are further adjusted for a general lack of liquidity due to the private nature of the associated underlying company. There is a direct correlation between changes in the volatility and remaining life assumptions in isolation and the fair value measurement while there is an

inverse correlation between changes in the liquidity discount assumption and the fair value measurement.

It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon valuation techniques that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. Substantially all of

104

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

our financial instruments use the foregoing methodologies, and are categorized as a Level 1 or Level 2 measurement in the fair value hierarchy. However, in certain cases, when market observable inputs for our valuation techniques may not be readily available, we are required to make judgments about assumptions we believe market participants would use in estimating the fair value of the financial instrument, and based on the significance of those judgments, the measurement may be determined to be a Level 3 fair value measurement.
The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. For inactive markets, there is little information, if any, to evaluate if individual transactions are orderly. Accordingly, we are required to estimate, based upon all available facts and circumstances, the degree to which orderly transactions are occurring and provide more weighting to price quotes that are based upon orderly transactions. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Accordingly, the degree of judgment exercised by management in determining fair value is greater for financial assets and liabilities categorized as Level 3.
Fee-based Services Revenue Recognition
Letters of Credit and Standby Letters of Credit Fee Income
Fees generated from letters of credit and standby letters of credit are deferred as a component of other liabilities and recognized in noninterest income over the commitment period using the straight-line method, based on the likelihood that the commitment being drawn down will be remote.
Client Investment Fees
Client investment fees include fees earned from Rule 12(b)-1 fees, revenue sharing and from customer transactional based fees. Rule 12(b)-1 fees and revenue sharing are recognized as earned based on client funds that are invested in the period. Transactional based fees are earned and recognized on fixed income securities when the transaction is executed on the clients' behalf.
Foreign Exchange Fees
Foreign exchange fees represent the income differential between purchases and sales of foreign currency on behalf of our clients and are recognized as earned.
Lending Related Fees
Unused commitment fees, minimum finance fees and unused line fees are recognized as earned on a monthly and quarterly basis. Fees that qualify for syndication treatment are recognized at the completion of the syndicated loan deal for which the fees were received.
Other Fee Income
Credit card fees, net of rewards expense, and deposit service charge fee income are recognized as earned on a monthly basis.
Other Service Revenue
Other service revenue primarily includes revenue from valuation services. We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) we have performed the service, provided we have no other remaining obligations to the customer, (iii) the fee is fixed or determinable and, (iv) collectability is probable.

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fund Management Fees and Carried Interest
Fund management fees are comprised of fees charged directly to our managed funds of funds and direct venture funds. Fund management fees are based upon the contractual terms of the limited partnership agreements and are recognized as earned over the specified contract period, which is generally equal to the life of the individual fund. Fund management fees are recorded as a component of other noninterest income.
Carried interest is comprised of preferential allocations of profits recognizable when the return on assets of our individual managed fund of funds and direct venture funds exceeds certain performance targets and is payable to us, as the general partners of the managed funds. The carried interest we earn is often shared with employees, who are also members of the general partner entities. We record carried interest on a quarterly basis by measuring fund performance to date versus the performance target. For our unconsolidated managed funds, carried interest is recorded as gains on investment securities, net. For our consolidated managed funds, it is recorded as a component of net income attributable to noncontrolling interests. Carried interest allocated to others is recorded as a component of net income attributable to noncontrolling interests.
Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Our federal, state and foreign income tax provisions are based upon taxes payable for the current year, current year changes in deferred taxes related to temporary differences between the tax basis and financial statement balances of assets and liabilities, and a reserve for uncertain tax positions. 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. We file a consolidated federal income tax return, and consolidated, combined, or separate state income tax returns as appropriate. Our foreign incorporated subsidiaries file tax returns in the applicable foreign jurisdictions. We record interest and penalties related to unrecognized tax benefits in other noninterest expense, a component of consolidated net income.
Share-Based Compensation
For all stock-based awards granted, stock-based compensation expense is amortized on a straight-line basis over the requisite service period, including consideration of vesting conditions and anticipated forfeitures. The fair value of stock options are measured using the Black-Scholes option-pricing model and the fair value for restricted stock awards and restricted stock units are based on the quoted price of our common stock on the date of grant.
Earnings Per Share
Basic earnings per common share is computed using the weighted average number of common stock shares outstanding during the period. Diluted earnings per common share is computed using the weighted average number of common stock shares and potential common shares outstanding during the period. Potential common shares consist of stock options, ESPP shares and restricted stock units. Common stock equivalent shares are excluded from the computation if the effect is antidilutive.
Derivative Financial Instruments
All derivative instruments are recorded on the balance sheet at fair value. The accounting for changes in fair value of a derivative financial instrument depends on whether the derivative financial instrument is designated and qualifies as part of a hedging relationship and, if so, the nature of the hedging activity. Changes in fair value are recognized through earnings for derivatives that do not qualify for hedge accounting treatment, or that have not been designated in a hedging relationship.
Fair Value Hedges
For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the hedging instrument is recorded in the statement of income in the same line item as the hedged item and is intended to offset the loss or gain on the hedged item attributable to the hedged risk. Any difference that does arise would be the result of

hedge ineffectiveness, and impacts earnings.

106

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Equity Warrant Assets
In connection with negotiated credit facilities and certain other services, we may obtain equity warrant assets giving us the right to acquire stock in primarily private, venture-backed companies in the technology and life science/healthcare industries. We hold these assets for prospective investment gains. We do not use them to hedge any economic risks nor do we use other derivative instruments to hedge economic risks stemming from equity warrant assets.
We account for equity warrant assets in certain private and public client companies as derivatives when they contain net settlement terms and other qualifying criteria under ASC 815, Derivatives and Hedging. In general, equity warrant assets entitle us to buy a specific number of shares of stock at a specific price within a specific time period. Certain equity warrant assets contain contingent provisions, which adjust the underlying number of shares or purchase price upon the occurrence of certain future events. Our warrant agreements typically contain net share settlement provisions, which permit us to receive at exercise a share count equal to the intrinsic value of the warrant divided by the share price (otherwise known as a "cashless" exercise). These equity warrant assets are recorded at fair value and are classified as derivative assets, a component of other assets, on our consolidated balance sheet at the time they are obtained.
The grant date fair values of equity warrant assets received in connection with the issuance of a credit facility are deemed to be loan fees and recognized as an adjustment of loan yield through loan interest income. Similar to other loan fees, the yield adjustment related to grant date fair value of warrants is recognized over the life of that credit facility.
Any changes in fair value from the grant date fair value of equity warrant assets will be recognized as increases or decreases to other assets on our balance sheet and as net gains or losses on derivative investments, in noninterest income, a component of consolidated net income. When a portfolio company completes an IPO on a publicly reported market or is acquired, we may exercise these equity warrant assets for shares or cash.
In the event of an exercise for shares, the basis or value in the securities is reclassified from other assets to investment securities on the balance sheet on the latter of the exercise date or corporate action date. The shares in public companies are classified as available-for-sale securities (provided they do not have a significant restriction from sale). Changes in fair value of securities designated as available-for-sale, after applicable taxes, are reported in accumulated other comprehensive income, which is a separate component of SVBFG stockholders' equity. The shares in private companies are classified as non-marketable securities. We, typically, account for these securities at cost and only record adjustments to the value at the time of exit or liquidation though gains (losses) on investments securities, net, which is a component of noninterest income.
The fair value of the equity warrant assets portfolio is a critical accounting estimate and is reviewed quarterly. We value our equity warrant assets using a modified Black-Scholes option pricing model, which incorporates the following significant inputs:

- An underlying asset value, which is estimated based on current information available, including any information regarding subsequent rounds of funding.
- Stated strike price, which can be adjusted for certain warrants upon the occurrence of subsequent funding rounds or other future events.
- Price volatility or the amount of uncertainty or risk about the magnitude of the changes in the warrant price. The volatility assumption is based on historical price volatility of publicly traded companies within indices similar in nature to the underlying client companies issuing the warrant. The actual volatility input is based on the mean and median volatility for an individual public company within an index for the past 16 quarters, from which an average volatility was derived.
- Actual data on cancellations and exercises of our warrants are utilized as the basis for determining the expected remaining life of the warrants in each financial reporting period. Warrants may be exercised in the event of acquisitions, mergers or IPOs, and cancelled due to events such as bankruptcies, restructuring activities or additional financings. These events cause the expected remaining life assumption to be shorter than the contractual term of the

warrants.

- The risk-free interest rate is derived from the Treasury yield curve and is calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.
- Other adjustments, including a marketability discount, are estimated based on management's judgment about the general industry environment.

107

Table of Contents

Foreign Exchange Forwards and Foreign Currency Option Contracts
We enter into foreign exchange forward contracts and foreign currency option contracts with clients involved in international activities, either as the purchaser or seller, depending upon the clients' need. We also enter into an opposite-way forward or option contract with a correspondent bank to economically hedge client contracts to mitigate the fair value risk to us from fluctuations in currency rates. Settlement, credit, and operational risks remain. We also enter into forward contracts with correspondent banks to economically hedge currency exposure risk related to certain foreign currency denominated assets and liabilities. These contracts are not designated as hedging instruments and are recorded at fair value in our consolidated balance sheets. The contracts generally have terms of one year or less, although we may have contracts extending for up to five years. Generally, we have not experienced nonperformance on these contracts, have not incurred credit losses, and anticipate performance by all counterparties to such agreements. Changes in the fair value of these contracts are recognized in consolidated net income under gains (losses) on derivative instruments, net, a component of noninterest income. Period-end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities.
Interest Rate Contracts
We sell interest rate contracts to clients who wish to mitigate their interest rate exposure. We economically reduce the interest rate risk from this business by entering into opposite way contracts with correspondent banks. We do not designate any of these contracts (which are derivative instruments) as qualifying for hedge accounting. Contracts in an asset position are included in other assets and contracts in a liability position are included in other liabilities. The net change in the fair value of these derivatives is recorded through net gains on derivative instruments, in noninterest income, a component of consolidated net income.
Adoption of New Accounting Standards
In May 2015, the FASB issued a new accounting standard (ASU 2015-07, Fair Value Measurement (Topic 820)), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The standard is required to be applied retrospectively to all periods presented. The guidance will be effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We early adopted this guidance in the second quarter of 2015. The adoption of this guidance impacts our fair value disclosures and has no impact on our financial position, results of operations or stockholders' equity.
In April 2015, the FASB issued a new accounting standard (ASU 2015-03, Interest- Imputation of Interest (Subtopic 835-30), which simplifies the presentation of debt issuance costs. The guidance will be effective for annual and quarterly periods beginning on January 1, 2016, with early adoption permitted. We early adopted this guidance in the third quarter of 2015 using the retrospective method, which required the restatement of prior period results. The adoption of this guidance impacted our statement of financial position, but had no impact on our results of operations or retained earnings. We reclassified $4.8 million and $2.1 million of debt issuance costs from other assets to a direct deduction from the carrying amounts of long-term debt for the periods ended December 31, 2015, and December 31, 2014, respectively.
In February 2015, the FASB issued a new accounting standard, ASU 2015-02, which amends the consolidation requirement for certain legal entities. As outlined above in "Principles of Consolidation and Presentation", we early adopted this guidance in the second quarter of 2015 using the modified retrospective method, which results in an effective date of adoption of January 1, 2015 and did not require the restatement of prior period results. The adoption of this guidance impacted our statement of financial position and results of operations, but had no impact on retained earnings, SVBFG stockholders' equity or net income as investments that were consolidated in previous reporting periods are now deconsolidated and no new investments were consolidated. Refer to Note 5—”Variable Interest Entities” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 of this report for additional details regarding our assessment of the adoption of this guidance.
In April 2014, the FASB issued a new accounting standard (ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of

Disposals of Components of an Entity), which changes the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, the new guidance requires expanded disclosures about the assets, liabilities, income, and expenses of discontinued operations and requires disclosures of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in this update are effective for fiscal years beginning after December, 15, 2014, with early adoption permitted only for disposals or classifications as held for sale that have not been previously reported. The Company adopted this ASU in the

---

fourth quarter of 2014. The adoption of this ASU modified the disclosure requirements for discontinued operations and did not have any impact on our financial position, results of operations or stockholders' equity.
In January 2014, the FASB issued a new accounting standard (ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects), which is effective for us for interim and annual reporting periods beginning after December 15, 2014. The standard is required to be applied retrospectively, with an adjustment to retained earnings in the earliest period presented. The ASU is applicable to our portfolio of low income housing tax credit ("LIHTC") partnership interests. We adopted this guidance in the first quarter of 2015. For prior periods, pursuant to ASU 2014-01, (i) amortization expense related to our low income housing tax credits was reclassified from Other noninterest expense to Income tax expense, (ii) additional amortization, net of the associated tax benefits, was recognized in Income tax expense as a result of our adoption of the proportional amortization method and (iii) net deferred tax assets, related to our low income housing tax investments, were written-off. The cumulative effect to retained earnings as of January 1, 2015 of adopting this guidance was a reduction of $4.7 million, inclusive of a $3.3 million reduction to retained earnings as of January 1, 2013. Our previously reported net income and diluted earnings per share for the years ended December 31, 2014 and 2013 were not materially impacted by the adoption of ASU 2014-01.
In June 2013, the FASB issued a new accounting standard (ASU No. 2013-08, Amendments to the Scope, Measurement and Disclosure Requirement for Investment Companies), which modified the guidance in ASC 946 for determining whether an entity is an investment company, as well as the measurement and disclosure requirements for investment companies. The ASU does not change current accounting where a noninvestment company parent retains the specialized accounting applied by an investment company subsidiary in consolidation. ASU 2013-08 was effective on a prospective basis for the interim and annual reporting periods beginning after December 15, 2013, and was therefore adopted in the first quarter of 2014. This standard did not have any impact on our financial position, results of operations or stockholders' equity.
In July 2013, the FASB issued a new accounting standard (ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists), which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. ASU 2013-11 was effective for, and adopted by the Company, in the first quarter of 2014. The adoption of ASU 2013-11 did not have a material impact on the Company's consolidated financial position, results of operations or stockholders' equity.
Recent Accounting Pronouncements
In May 2014, the FASB issued a new accounting standard (ASU 2014-09, Revenue from Contracts with Customers (Topic 606)), which provides revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the income statement. This guidance will be effective on a retrospective basis beginning on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or stockholders' equity.
In April 2015, the FASB issued a new accounting standard (ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)). This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will be effective on a January 1, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or stockholders' equity.
In January 2016, the FASB issued a new accounting standard (ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)), which will significantly change the income statement impact

of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This guidance will be effective on January 1, 2018, on a prospective basis with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We are currently evaluating the impact this guidance will have on our consolidated financial statements, as well as the expected timing and method of adoption.

Reclassifications

Certain prior period amounts, including amounts related to the adoption of ASU 2014-01, ASU 2015-03 and ASU 2015-07, have been reclassified to conform to current period presentations.

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Stockholders' Equity and EPS

Common Stock

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

Accumulated Other Comprehensive Income

The following table summarizes the items reclassified out of accumulated other comprehensive income into the Consolidated Statements of Income for 2015, 2014, and 2013:

(Dollars in thousands)	Income Statement Location	Year ended December 31, 2015	2014	2013
Reclassification adjustment for (gains) losses included in net income	Gains on investment securities, net	$(1,201)	$18,598	$(538)
Related tax expense (benefit)	Income tax expense	481	(7,510)	218
Total reclassification adjustment for (gains) losses included in net income, net of tax		$(720)	$11,088	$(320)

EPS

Basic EPS is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted EPS is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock option and restricted stock unit awards outstanding under our equity incentive plan and our ESPP. Potentially dilutive common shares are excluded from the computation of dilutive EPS in periods in which the effect would be antidilutive. The following is a reconciliation of basic EPS to diluted EPS for 2015, 2014 and 2013:

(Dollars and shares in thousands, except per share amounts)	Year ended December 31, 2015	2014	2013
Numerator:			
Net income available to common stockholders	$343,904	$263,870	$214,517
Denominator:			
Weighted average common shares outstanding-basic	51,318	48,931	45,309
Weighted average effect of dilutive securities:			
Stock options and ESPP	387	485	431
Restricted stock units	211	246	204
Denominator for diluted calculation	51,916	49,662	45,944
Earnings per common share:			
Basic	$6.70	$5.39	$4.73
Diluted	$6.62	$5.31	$4.67

The following table summarizes the weighted average common shares excluded from the diluted EPS calculation as they were deemed to be antidilutive for 2015, 2014 and 2013:

(Shares in thousands)	Year ended December 31, 2015	2014	2013
Stock options	185	161	261
Restricted stock units	—	—	105
Total	185	161	366

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. Share-Based Compensation

Share-based compensation expense was recorded net of estimated forfeitures for 2015, 2014 and 2013, such that expense was recorded only for those share-based awards that are expected to vest. In 2015, 2014 and 2013, we recorded share-based compensation and related benefits as follows:

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Share-based compensation expense	$32,239	$29,545	$25,413
Income tax benefit related to share-based compensation expense	(11,395)	(9,923)	(7,989)
Capitalized compensation costs	2,226	2,048	2,809

Equity Incentive Plan

On May 11, 2006, our stockholders approved the 2006 Equity Incentive Plan (the “2006 Incentive Plan”). Our previous 1997 Equity Incentive Plan expired in December 2006. The 2006 Incentive Plan provides for the grant of various types of incentive awards, of which the following have been granted: (i) stock options; (ii) restricted stock awards; (iii) restricted stock units; and (iv) other cash or stock settled equity awards.

Subject to the provisions of Section 16 of the 2006 Incentive Plan, the maximum aggregate number of shares that may be awarded and sold thereunder is 9,528,505.

Restricted stock awards and restricted stock units will be counted against the available-for-issuance limits of the 2006 Incentive Plan as two shares for every one share awarded. Further, if shares acquired under any such award are forfeited or otherwise canceled and would otherwise return to the 2006 Incentive Plan, two times the number of such forfeited or repurchased shares will return to the 2006 Incentive Plan and will again become available for issuance.

Eligible participants in the 2006 Incentive Plan include directors, employees, and consultants. Options granted under the 2006 Incentive Plan expire seven years after the grant date. Options generally vest annually over four years, from the grant date based on continued employment or other service. Restricted stock awards and units also generally vest annually over four years and require continued employment or other service through the vesting period.

Performance-based restricted stock units generally vest upon meeting certain performance-based objectives and, typically the passage of time and require continued employment or other service through the vesting period. The vesting period for restricted stock units cannot be less than three years unless they are subject to certain performance-based objectives, in which case the vesting period cannot be less than 12 months.

Employee Stock Purchase Plan

We maintain the 1999 ESPP under which participating employees may annually contribute up to 10 percent of their gross compensation (not to exceed $25,000) to purchase shares of our common stock at 85 percent of its fair market value at either the beginning or end of each six-month offering period, whichever price is less. To be eligible to participate in the ESPP, an employee must, among other requirements, be employed by the Company on both the date of offering and date of purchase, and be employed customarily for at least 20 hours per week and at least five months per calendar year. We issued 140,471 shares and received $13.9 million in cash under the ESPP in 2015. At December 31, 2015, a total of 425,728 shares of our common stock were still available for future issuance under the ESPP.

Unrecognized Compensation Expense

As of December 31, 2015, unrecognized share-based compensation expense was as follows:

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	$11,194	2.30
Restricted stock units	37,903	2.53
Total unrecognized share-based compensation expense	$49,097	

Table of Contents
SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Valuation Assumptions

The fair values of share-based awards for employee stock options and employee stock purchases made under our ESPP were estimated using the Black-Scholes option pricing model. The fair values of restricted stock units were based on our closing stock price on the date of grant. The following weighted average assumptions and fair values were used for our employee stock options and restricted stock units:

Equity Incentive Plan Awards	2015		2014		2013	
Weighted average expected term of options - in years	4.7		4.6		4.7	
Weighted average expected volatility of the Company's underlying common stock	31.3	%	35.9	%	44.6	%
Risk-free interest rate	1.49		1.72		0.70	
Expected dividend yield	—		—		—	
Weighted average grant date fair value - stock options	$37.86		$35.65		$27.28	
Weighted average grant date fair value - restricted stock units	129.23		107.76		71.57	

The following weighted average assumptions and fair values were used for our ESPP:

ESPP	2015		2014		2013	
Expected term in years	0.5		0.5		0.5	
Weighted average expected volatility of the Company's underlying common stock	25.9	%	23.7	%	22.3	%
Risk-free interest rate	0.12		0.08		0.11	
Expected dividend yield	—		—		—	
Weighted average fair value	$29.27		$24.00		$15.35	

The expected term is based on the implied term of the stock options using factors based on historical exercise behavior. The expected volatilities are based on a blended rate consisting of our historic volatility and our expected volatility over a five-year term which is an indicator of expected volatility and future stock price trends. For 2015, 2014 and 2013, expected volatilities for the ESPP were equal to the historical volatility for the previous six-month periods. The expected risk-free interest rates were based on the yields of U.S. Treasury securities, as reported by the Federal Reserve Bank of New York, with maturities equal to the expected terms of the employee stock options.

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Share-Based Payment Award Activity

The table below provides stock option information related to the 2006 Equity Incentive Plan for the year ended December 31, 2015:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life - in Years	Aggregate Intrinsic Value of In-The-Money Options
Outstanding at December 31, 2014	1,394,888	$66.03		
Granted	123,561	129.20		
Exercised	(357,441)	51.52		
Forfeited	(22,260)	84.17		
Expired	(1,520)	48.76		
Outstanding at December 31, 2015	1,137,228	77.12	3.81	$ 48,803,591
Vested and expected to vest at December 31, 2015	1,107,168	76.33	3.77	48,309,612
Exercisable at December 31, 2015	613,873	60.86	2.80	35,630,862

The aggregate intrinsic value of outstanding options shown in the table above represents the pre-tax intrinsic value based on our closing stock price of $118.90 as of December 31, 2015. The following table summarizes information regarding stock options outstanding and exercisable as of December 31, 2015:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life - in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$19.48-49.47	170,043	1.09	$38.70	169,806	$38.68
49.48-60.51	160,003	2.40	59.52	155,136	59.60
60.52-64.40	210,364	3.33	64.32	135,521	64.31
64.41-67.77	2,654	3.25	64.43	1,675	64.43
67.78-79.77	237,835	4.33	71.11	98,120	71.11
79.78-107.93	26,764	5.40	101.18	6,805	99.07
107.94-108.59	197,920	5.33	107.98	44,859	107.98
108.60-127.44	16,685	6.18	119.00	1,951	117.01
127.45-129.81	114,960	6.33	129.81	—	—
	1,137,228	3.81	77.12	613,873	60.86

We expect to satisfy the exercise of stock options by issuing shares registered under the 2006 Incentive Plan. All future awards of stock options and restricted stock units will be issued from the 2006 Incentive Plan. At December 31, 2015, 2,664,121 shares were available for future issuance.

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The table below provides information for restricted stock units under the 2006 Equity Incentive Plan for the year ended December 31, 2015:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	614,666	$79.92
Granted	241,548	129.23
Vested	(264,884)	73.35
Forfeited	(19,292)	88.51
Nonvested at December 31, 2015	572,038	103.50

The following table summarizes information regarding stock option and restricted stock activity during 2015, 2014 and 2013:

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Total intrinsic value of stock options exercised	$27,430	$21,288	$25,520
Total grant date fair value of stock options vested	21,052	20,291	18,168
Total intrinsic value of restricted stock vested	34,009	25,453	14,176
Total grant date fair value of restricted stock vested	19,428	14,935	10,940

5. Variable Interest Entities

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

The following table presents the carrying amounts and classification of significant variable interests in consolidated and unconsolidated VIEs as of December 31, 2015:

(Dollars in thousands)	Consolidated VIEs	Unconsolidated VIEs (1)	Maximum Exposure to Loss in Unconsolidated VIEs
December 31, 2015:			
Assets:			
Cash and cash equivalents	$11,811	$—	$—
Non-marketable and other securities (2)	203,714	364,450	364,450
Accrued interest receivable and other assets	494	—	—
Total assets	$216,019	$364,450	$364,450
Liabilities:			
Other liabilities	$433	$—	$—
Accrued expenses and other liabilities (2)	—	90,978	—
Total liabilities	$433	$90,978	$—

(1) During the second quarter of 2015 we adopted ASU 2015-02, which amends the consolidation requirements for certain legal entities. We applied the accounting guidance as of the beginning of the fiscal year of adoption, January 1, 2015. Upon adoption, we deconsolidated 16 entities, which reduced our total assets and total equity (which includes total SVBFG stockholders' equity plus noncontrolling interests) by $1.1 billion and $1.2 billion, respectively, primarily as a result of the reduction of our non-marketable and other securities and noncontrolling interests, respectively. SVB Financial continues to consolidate its interest in five SVB Capital funds that meet the new consolidation criteria.

(2)

Included in our unconsolidated non-marketable and other securities portfolio are investments in qualified affordable housing projects of $154.4 million and related unfunded commitments of $91.0 million.

Non-marketable and other securities

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

All investments are generally non-redeemable and distributions are expected to be received through the liquidation of the underlying investments throughout the life of the investment fund. Investments may be sold or transferred subject to the notice and approval provisions of the underlying investment agreement. Subject to applicable regulatory requirements, including the Volcker Rule, we also make commitments to invest in venture capital and private equity funds, but are not obligated to fund commitments beyond our initial investment. For additional details, see Note 19—"Off-Balance Sheet Arrangements, Guarantees, and Other Commitments" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report.

The Bank also has variable interests in low income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. These investments are typically limited partnerships in which the general partner, other than the Bank, holds the power over significant activities of the VIE. We have not consolidated these investments in accordance with the new guidelines in ASU 2015-02. For additional information on our investments in qualified affordable housing projects see Note 8—“Investment Securities" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 of this report.

As of December 31, 2015, our exposure to loss with respect to the consolidated VIEs is limited to our net assets of $215.6 million and our exposure to loss for our unconsolidated VIEs is equal to our investment in these assets of $364.5 million.

6. Reserves on Deposit with the Federal Reserve Bank and Federal Bank Stock

The Bank is required to maintain reserves against customer deposits by keeping balances with the Federal Reserve. The cash balances at the Federal Reserve are classified as cash and cash equivalents. Additionally, as a member of the FHLB and FRB, we are required to hold shares of FHLB and FRB stock under the Bank's borrowing agreement. FHLB and FRB stock are recorded at cost as a component of other assets, and any cash dividends received are recorded as a component of other noninterest income.

The tables below provide information on the required reserve balances at the Federal Reserve, as well as shares held at the FHLB and FRB for the years ended and as of December 31, 2015 and 2014:

	Year ended December 31,	
(Dollars in thousands)	2015	2014
Average required reserve balances at FRB San Francisco	$278,101	$168,387

	December 31,	
(Dollars in thousands)	2015	2014
FHLB stock holdings	$17,250	$25,000
FRB stock holdings	39,741	28,496

Table of Contents

SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

7. Cash and Cash Equivalents

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

(Dollars in thousands)	December 31, 2015	December 31, 2014
Cash and due from banks (1)	$1,372,743	$1,694,329
Securities purchased under agreements to resell (2)	125,391	95,611
Other short-term investment securities	5,123	6,122
Total cash and cash equivalents	$1,503,257	$1,796,062

(1) At December 31, 2015 and 2014, $405 million and $861 million, respectively, of our cash and due from banks was deposited at the FRB and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were $500 million and $440 million, respectively.

(2) At December 31, 2015 and 2014, securities purchased under agreements to resell were collateralized by U.S. Treasury securities and U.S. agency securities with aggregate fair values of $128 million and $98 million, respectively. None of these securities were sold or repledged as of December 31, 2015 and 2014.

Additional information regarding our securities purchased under agreements to resell for 2015 and 2014 is as follows:

	Year Ended December 31,	
(Dollars in thousands)	2015	2014
Average securities purchased under agreements to resell	$75,504	$108,910