SVB Financial Group

# Silicon Valley Bancshares Announces Preliminary Results

## Rising Deposit Levels, Stellar Credit Quality and Effective Execution on Capital Plan Drive Operating Earnings

SANTA CLARA, Calif., July 17 /PRNewswire-FirstCall/ --

IMPORTANT NOTE: Silicon Valley Bancshares (Nasdaq: SIVB) is in the process of performing a Statement of Financial Accounting Standards No. 142 impairment test on its investment-banking subsidiary, Alliant Partners, as periodically required. This analysis is not complete. When the analysis is complete the results presented in this release may be subject to change. All numbers in this release exclude any impact from the analysis and should be read with that in mind. We will issue a final release upon conclusion of the analysis.

Silicon Valley Bancshares, parent company of Silicon Valley Bank, today announced diluted operating earnings per common share (EPS) of $0.28 for the second quarter of 2003, $0.01 above the top of guidance given last quarter of $0.23 to $0.27 per share, and $0.02 above the first quarter. EPS were $0.26 and $0.32 in the first quarter of 2003 and second quarter of 2002, respectively. EPS for the first six months of 2003 were $0.54.

Net income totaled $10.4 million for the quarter ended June 30, 2003, a small increase from the first quarter of 2003. Net income in the second quarter of 2002 was $15.0 million. Net income was $20.9 million for the first six months of 2003 compared to $28.3 million in the same period a year ago.

"We are beginning to see signs of a slow, but noticeable improvement in the economic outlook for our clients. Both technology spending and top-tier VC investing appear to be stabilizing after two years of declines," said Ken Wilcox, president and CEO. "Credit quality continues to lead Silicon Valley Bancshares' performance. With nonperforming loans (NPLs) and net charge-offs continuing to trend downward, we have been able to reduce the provision for loan losses. That factor, combined with an increase in fee income and holding the line on expenses, has allowed us to exceed our guidance for the second successive quarter.

"Despite these promising signs, pressure on interest rates continues to constrain our performance, and the recent cut in the Fed Funds rate will challenge earnings growth," Wilcox said. "However, our fundamentals remain strong and we expect our performance to show meaningful improvements over the long run."

Second Quarter Highlights

- Average deposit balances of $3.1 billion remained consistent with the prior quarter, at the high end of the range of $2.9 billion to $3.2 billion experienced since the fourth quarter of 2001. End of period balances at June 30, 2003 were $237.3 million above the period-end balances for the first quarter of 2003, and the highest since the second quarter of 2001.

- Credit quality continues to excel, with NPLs at 0.8 percent of total gross loans -- consistent with levels for the past seven quarters. The allowance to cover potential loan losses is at 416.8 percent of NPLs, and net charge-offs were $1.7 million or 0.3 percent of total gross loans, on an annualized basis. The company continues to emphasize credit quality and expects that the provision will be slightly below the level of net charge-offs for the remainder of the year.

- On May 7, 2003, the company's board of directors authorized an additional stock repurchase program of up to $160 million. The program became effective immediately and replaced previously announced stock repurchase programs. Additionally in May 2003, the company entered into a third accelerated stock repurchase (ASR) agreement, the terms of which are similar to those of the previous two ASR agreements entered into in January 2003 and November 2002. As of June 30, 2003, approximately $113.4 million of stock had been repurchased under the May 7th program. In the second quarter, prior to the announcement of the new program, the company purchased approximately $2.3 million of stock, bringing total repurchases for the quarter to $115.7 million. The stock repurchases in the second quarter added $0.01 to EPS. We expect second quarter's repurchases to have about a $0.03 per share impact in the third quarter. Once the full $160 million repurchase is completed, we expect it to have approximately a $0.05 impact on EPS.

- Alliant revenues rose $0.5 million to $4.6 million. An increased pace of transaction closings as well as higher average fees drove second quarter revenues. Due to the nature of the mergers and acquisitions industry, we expect Alliant revenues to continue to be volatile, but to exhibit a general upward trend over the long term.

- Average loans, at $1.8 billion, are relatively unchanged from the first quarter, down approximately $32.0 million. We

expect average loan balances to move slightly down in the third quarter and then move higher toward the end of the year as our later stage corporate technology efforts continue to develop.

Assets and Deposits

Total assets at $4.3 billion were up $317.5 million from March 31, 2003 and up $473.8 million from June 30, 2002. Loans, net of unearned income, were $2.0 billion at June 30, 2003, down slightly from $2.1 billion at March 31, 2003, and up from $1.9 billion at June 30, 2002.

Average deposit balances decreased $22.4 million from the first quarter of 2003 to $3.1 billion. Period-end total deposits increased $237.3 million from the first quarter of 2003 and increased $495.2 million from June 30, 2002. Client funds invested in private label investment and sweep products totaled $8.2 billion at June 30, 2003, compared with $8.1 billion at March 31, 2003, and $8.7 billion at June 30, 2002. Average client investment fund balances decreased from $8.5 billion in the first quarter of 2003 to $8.1 billion in the second quarter of 2003. The decline in balances resulted in a quarterly decrease in client investment fees of $0.3 million.

Income

Net interest income decreased $1.3 million from the first to the second quarter of 2003, and decreased $2.4 million from the second quarter of 2002. The decrease in net interest income from the first quarter was due to lower investment portfolio earnings and the absence of income from the collection of non-accrual loans, which the company had experienced in the first quarter.

Net interest margin decreased to 5.5 percent in the second quarter, from 5.7 percent in the first quarter of 2003, reflecting the absence of income from collection of non-accrual loans, as well as the lower level of interest rates available to investment securities. We expect that the most recent cut in the Fed Funds rate will cause modest margin erosion in the third quarter because a significant portion of our loans had hit their floors prior to the cut. Also, long rates in the fixed income markets increased in reaction to the Federal Reserve's announcement, which should partially offset the impact on the short portion of the portfolio.

Noninterest income increased slightly to a total of $17.5 million in the second quarter of 2003. The increase resulted from higher revenues at Alliant, higher deposit fees, and smaller losses in the equity securities portfolio. Higher first-quarter gross securities write-downs were primarily due to unusually large losses relating to venture capital funds in which the company has invested in directly or through its fund of funds. These improvements were partially offset by lower letter of credit (LC) and foreign exchange (FX) income and the decrease in income from client warrants. LC and FX income in the second quarter was slightly lower due to the continued impact of global political events, as well as a narrowing of spreads. Noninterest income was $18.9 million in the second quarter of 2002.

Income from the disposition of client warrants was $1.1 million in the second quarter of 2003, higher than in any quarter of 2002. Warrant income for the six months ended June 30, 2003 was higher than that for all of 2002. The company continues to grow its warrant portfolio in anticipation of future returns. Based on June 30, 2003 market valuations, the company had $1.8 million in potential pre-tax warrant gains. The company is restricted from exercising many of these warrants until later in 2003 and 2004. As of June 30, 2003, the company directly held 1,845 warrants in 1,359 companies, had made investments in 250 venture capital funds, and had direct equity investments in 20 companies, many of which are private. Additionally, the company has made investments in 21 venture capital funds through its fund of funds, SVB Strategic Investors Fund, L.P., and made direct equity investments in 28 companies through its venture capital fund, Silicon Valley BancVentures, L.P. The company is typically contractually precluded from taking steps to secure any current unrealized gains associated with many of these equity instruments. Hence, the amount of income realized by the company from these equity instruments in future periods may vary materially from the current unrealized amount due to fluctuations in the market prices of the underlying common stock of these companies. However, because of the potential for growth, income from the disposition of client warrants is a key component of Silicon Valley Bancshares' long-term strategy.

Write-downs and Expenses

Gross securities write-downs decreased quarter over quarter by $0.9 million. Write-downs of the company's equity investments, net of minority interest, totaled approximately $1.5 million in the second quarter of 2003 and $1.7 million in the first quarter of 2003.

Noninterest expense totaled $50.2 million in the second quarter of 2003, approximately the same as in the first quarter of 2003. Noninterest expense included higher professional services fees, business development costs and furniture and equipment costs offset by lower compensation costs and occupancy costs. The decrease in compensation expense was primarily due to lower severance expense as well as slightly reduced headcount. Noninterest expense increased $1.2 million from the second quarter of 2002.

The company's efficiency ratio increased from 71.4 percent in the first quarter of 2003 to 72.9 percent in the second quarter of 2003, primarily due to lower net interest income. The efficiency ratio is calculated by dividing adjusted noninterest expense by adjusted revenues. Noninterest expense is adjusted to exclude costs associated with tax credit funds, minority interest, and

retention and warrant incentive plans. Revenues are adjusted to exclude income associated with minority interest, the disposition of client warrants and gains or losses related to investment securities.

Return on average equity was 8.1 percent in the second quarter of 2003, compared to 7.3 percent in the first quarter of 2003 and 9.3 percent in the second quarter of 2002. For the second quarter of 2003, return on average assets was 1.1 percent, unchanged from the first quarter of 2003, and a decrease of 0.5 percent from the 1.6 percent in the second quarter of 2002.

Credit Quality
NPLs fell once again to $16.7 million, or 0.8 percent of total gross loans, at June 30, 2003, from $19.1 million, or 0.9 percent of gross loans, at March 31, 2003. The company's management of charge-offs and NPLs allowed it to reduce the allowance for loan losses to $69.5 million, or 3.5 percent of total gross loans and 416.8 percent of NPLs, at June 30, 2003. This compares to $70.0 million, or 3.4 percent of total gross loans and 366.0 percent of NPLs, at March 31, 2003. At June 30, 2002, the allowance for loan losses totaled $76.0 million or 4.0 percent of total gross loans and 390.8 percent of NPLs. The company incurred $1.7 million in net charge-offs in the second quarter, representing 0.3 percent of total gross loans, on an annualized basis, consistent with the first quarter of 2003. In the second quarter, the company recorded a $1.2 million provision for loan losses. Gross charge-offs for the 2003 second quarter totaled $4.7 million. Convertible Debt
In May 2003, the company successfully completed the issuance of $150 million of zero-coupon, zero-yield, five-year convertible subordinated notes. The notes were priced at par and are convertible into common stock at an initial conversion price of $33.6277. The company has used a portion of the net proceeds for repurchasing shares of its common stock. The company has also used a portion of the proceeds to cover the net cost of entering into a convertible note hedge and a warrant agreement with respect to its common stock. This arrangement limits the company's exposure to potential dilution from conversion of the notes by raising the conversion price. As a result of the hedge, the company will only issue incremental shares to the note holders if the price of the stock rises above $51.34. Proceeds may also be used for general corporate purposes. Stock Buyback Program and Stockholders' Equity
On May 7, 2003, the company's board of directors authorized an additional stock repurchase program of up to $160 million. The program was effective immediately and replaced previously announced stock repurchase programs. In conjunction with the convertible note offering, the company purchased 1.3 million shares for approximately $33.4 million. Additionally, during the second quarter of 2003, the company entered into an accelerated stock repurchase agreement (ASR). The terms of this ASR are substantially the same as ASR agreements entered into in January 2003 and November 2002. (See "Item 8. Consolidated Financial Statements and Supplementary Data - Note 15 to the Consolidated Financial Statements - Common Stock Repurchases" in our 2002 Annual Report on Form 10-K, as filed with the SEC, for terms of the ASR.)

The ASR executed during the second quarter was for approximately 3.2 million shares at an initial price of $80.0 million. The company had purchased in the open market and sold to the counterparty approximately 1.8 million shares totaling $38.7 million, leaving fewer than 1.4 million shares remaining under the forward contract obligation. Based on the company's stock price at the end of the second quarter of 2003, the counterparty would pay the company $1.3 million in net settlement of the contract. However, for every dollar of change in the average price of the company's common stock during the valuation period, the settlement would change by approximately $1.4 million.

As of June 30, 2003, the company had purchased approximately 5.2 million shares of common stock totaling $94.3 million in conjunction with the $100 million share repurchase program authorized by the Board of Directors on September 16, 2002. The company terminated this program on commencement of the $160 million buyback program announced on May 7, 2003.

Stockholders' equity totaled $443.2 million at June 30, 2003, a decrease of $123.0 million compared to $566.1 million at March 31, 2003. Stockholders' equity was reduced as a result of the company's share repurchase programs, offset partially by the quarter's earnings. The company's and Silicon Valley Bank's capital ratios remain strong for a well-capitalized depository institution as of June 30, 2003.

Q3 Guidance
Silicon Valley Bancshares expects third quarter 2003 earnings to be between $0.27 and $0.31 per share. The forecast assumes slightly lower average loans, stable deposits, a small decrease in net interest margin, no further changes in the Fed Funds rate, and improved returns on investment securities. The company also expects credit quality to remain high and that additional shares will be repurchased. Safe Harbor
This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The company's senior management has in the past and might in the future make forward-looking statements orally to analysts, investors, the media and others. Forward- looking statements are statements that are not historical facts. Broadly speaking, forward-looking statements include:

- projections of our revenues, income, earnings per share, balance sheet, capital expenditures, capital structure or other financial items;
- descriptions of strategic initiatives, plans or objectives of our management for future operations, including pending acquisitions;
- descriptions of products, services and industry sectors;
- forecasts of venture capital funding levels;

- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

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

- future EPS
- economic outlook for our clients
- future performance
- returns and growth of our warrant portfolio
- future Alliant Partners revenue
- future loan growth and yield
- future deposit trends
- future stock buybacks and the impact on future quarters EPS of the existing buybacks
- future investment portfolio returns
- client fund balance levels
- future provision for loan losses
- information technology spending
- future venture capital funding levels

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

Factors that may cause the third quarter 2003 targets to change include:

- adjustments required in the close process
- material changes in the state of the economy or the markets served by Silicon Valley Bancshares
- material changes in credit quality
- material changes in interest rates or market levels.

For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see the text under the caption "Risk Factors" included in Item 7A, page 56, of our annual report on Form 10-K dated March 5, 2003. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this discussion and analysis. All subsequent written or oral forward-looking statements attributable to the company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this filing are made only as of the date of this filing. The company does not intend, and undertakes no obligation, to update these forward-looking statements.

Certain reclassifications have been made to prior years results to conform with 2003 presentations. Such reclassifications had no effect on the company's results of operations or stockholders' equity.

This release excludes any impact from the in-progress impairment test for Alliant. If it should be determined that there is impairment, the numbers contained herein will change.

Earnings Conference Call
On July 17, 2003, the company will host a conference call at 2:00 p.m. (PDT) to discuss the 2003 second quarter financial results. The conference call can be accessed by dialing 877-630-8512 and referencing the passcode "Silicon Valley Bank." A live Webcast can be accessed at www.svb.com. A digitized replay of this conference call will be available beginning at approximately 4:30 p.m. (PDT), on Thursday, July 17, 2003, through 5:00 p.m. (PDT), on Saturday, August 16, 2003, by dialing 800-454-0036. A replay of the Webcast will also be available on www.svb.com beginning Thursday, July 17, 2003. About Silicon Valley Bancshares

For 20 years, Silicon Valley Bancshares, a financial holding company providing diversified financial services, has sustained its mission to provide innovative solutions to help entrepreneurs succeed. The company's principal subsidiary, Silicon Valley Bank, serves emerging growth and mature companies in the technology and life sciences markets, as well as the premium wine industry. Headquartered in Santa Clara, Calif., the company offers clients financial products and services including commercial, investment, merchant and private banking, as well as value-add client services using its proprietary knowledge base. Merger, acquisition and corporate partnering services are provided through the company's investment banking subsidiary, Alliant Partners. More information on the company can be found at www.svb.com.