

SVB FINANCIAL GROUP

FORM 10-K (Annual Report)

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 33-41102

SILICON VALLEY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction
of
incorporation or organization)
3003 TASMAN DRIVE
SANTA CLARA, CALIFORNIA
(Address of principal
executive offices)

94-2856336
(I.R.S. Employer
Identification
Number)
95054-1191
(Zip Code)

Registrant's telephone number, including area code: (408) 654-7282

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

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

Common Stock (no par value)
(Title of each class)

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of its common stock on January 31, 1998, on the Nasdaq National Market was \$558,358,755.

At January 31, 1998, 10,128,957 shares of the registrant's common stock (no par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENTS INCORPORATED

PARTS OF FORM 10-K
INTO WHICH INCORPORATED

Definitive proxy statement for the Company's 1998 Annual Meeting
of Shareholders to be filed within 120 days of the end of the
fiscal year ended December 31, 1997

Part III

This report contains a total of 80 pages, including exhibits.

The Exhibit Index is on page 70.

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PART I

ITEM 1. BUSINESS GENERAL

Silicon Valley Bancshares (the "Company") is a California corporation and bank holding company that was incorporated on April 23, 1982. The Company's principal subsidiary is Silicon Valley Bank (the "Bank"), a wholly owned subsidiary of the Company that was organized and incorporated as a California banking corporation on October 17, 1983. SVB Leasing Company, a wholly owned subsidiary of the Company, was incorporated on November 14, 1984 as a California corporation, and has remained inactive since incorporation.

The Bank is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Bank serves emerging growth and middle-market companies in specific targeted niches, focusing on the technology and life sciences industries, while also identifying and capitalizing on opportunities to serve companies in other industries whose financial services needs are underserved.

BUSINESS OVERVIEW

The Bank provides commercial lending and other financial products and services to clients in the technology and life sciences industries, as well as in other specifically targeted niches. These clients are served across the nation by the Bank through branches and/or loan offices located in Arizona, California, Colorado, Georgia, Illinois, Maryland, Massachusetts, Oregon, Texas, and Washington. Since 1994, the Bank has refined a niche strategy based on identifying and capitalizing on market niches whose financial services needs are underserved. By dedicating resources within these niches, the Bank is able to provide the highest level of expertise and quality service to its clients.

TECHNOLOGY AND LIFE SCIENCES NICHE

The Bank's technology and life sciences niche focuses on serving companies within a variety of technology and life sciences industries and markets across the nation. These companies are generally liquid, net providers of funds to the Bank, and often have low utilization of their credit facilities. Lending to this niche is typically related to working capital lines of credit, equipment financing, asset acquisition loans, and bridge financing. The following is an overview of the Bank's technology and life sciences niche practices.

The Communications and Online Services practice serves companies in the networking, telecommunications and online services industries. The networking industry includes companies supplying the equipment and services that facilitate distributed enterprise networks such as local and wide area networks. The telecommunications industry encompasses the suppliers of equipment and services to companies and consumers for the transmission of voice, data and video. Companies included in the online services industry supply access, content, services, and support to individuals and businesses participating on the Internet, or in other online activities.

The Computers and Peripherals practice focuses on companies that are engaged in the support and manufacturing of computers, electronic components and related peripheral products. Specific markets these companies serve include personal computers, specialty computer systems, add-in boards, printers, storage devices, networking equipment, and contract manufacturing.

The Semiconductors practice serves companies involved in the design, manufacturing and marketing of integrated circuits. This includes companies involved in the manufacturing of semiconductor production equipment and semiconductors, testing and related services, electronic parts wholesaling, computer-aided design, and computer-aided manufacturing.

The Software practice consists largely of companies specializing in the design of integrated computer systems, computer programming services, and the development and marketing of commercial and industrial applications as well as prepackaged software.

The Life Sciences practices serve companies in the biotechnology, medical devices and health care services industries. The biotechnology industry includes companies involved in research and development of therapeutics and diagnostics for the medical and pharmaceuticals industries. The medical devices industry encompasses companies involved in the design, manufacturing and distribution of surgical instruments and medical equipment. Companies included in the health care services industry deal with patients, either in a primary care or secondary care role.

In addition to the industry-related practices discussed above, the Bank has three other practices that provide commercial lending and other financial products and services to clients associated with the technology and life sciences industries. The Pacific Rim practice serves the market of Asian-owned or managed companies located in the U.S. which meet the criteria for inclusion in any of the industries mentioned above, while the Venture Capital practice provides venture capital firms with financing and other specialized products and services. Lastly, the Emerging Technologies practice, which was established in 1997, primarily targets non-venture-backed technology financial relationships in Northern California, with a primary focus on the software industry.

SPECIAL INDUSTRY NICHES

The Bank has always served a variety of commercial enterprises unrelated to its technology and life sciences niche. These clients are served through several special industry niche practices which generally focus their lending in specific regions throughout the U.S. The Bank's niche strategy evolved from clients unrelated to the technology and life sciences niche, and the Bank continues to follow this strategy by identifying industries whose financial services needs are underserved. The following is a brief summary of the Bank's special industry niche practices.

The Real Estate practice is composed of real estate construction and term loans whose primary source of repayment is cash flow or sales proceeds from real property collateral. The focus of the Real Estate practice consists of construction loans for residential and commercial projects, and construction and mini-permanent loans on retail, industrial and office projects.

The Premium Wineries practice focuses on wineries which produce select or exclusive vintages of up to 150,000 cases annually. Lending in this niche consists of both short-term inventory loans and term loans related to vineyard acquisition and development, equipment financing and coeprage.

The Religious Financial Resources practice serves the credit needs of churches, temples, their affiliated schools, and other religious organizations nationwide. Products offered to this niche include term loans for refinancing existing debt, acquiring property and for construction, remodeling or renovation projects.

The Entertainment practice serves the independent sector of the entertainment industry. This practice provides production loans, lines of credit and term loans for library and other acquisitions.

In addition to serving the niches listed above, the Bank serves a broad array of industries through its Diversified Industries practice in Northern California. This practice allows the Bank to continue to evaluate potential niches by initially identifying and serving a few clients in related industries or markets.

SPECIALIZED PRODUCTS AND SERVICES

The Bank has several divisions that offer specialized lending products and other financial products and services to clients in the technology and life sciences niche as well as the special industry niches discussed above, enabling the Bank to better serve its clients' wide range of financial services needs. These

divisions include: International, Cash Management, Treasury, Real Estate, Factoring, Commercial Finance, and Executive Banking.

The International Division provides foreign exchange, import and export letters of credit, documentary collections, and a number of other trade finance products and services to the Bank's clients, helping them to successfully operate in international markets. The Bank has been granted delegated authority by the Export-Import Bank of the U.S. (EX-IM) and the California Export Finance Office (CEFO), enabling the Bank to provide its clients with EX-IM and CEFO guaranteed working capital loans to finance foreign receivables and inventory intended for export, as well as provide purchase order financing.

The Cash Management Division provides services to help the Bank's customers manage cash collections and disbursements efficiently and cost effectively. Services provided include wholesale lockbox services, electronic information reporting, controlled disbursement services, and a variety of other services designed to meet the banking and cash management needs of the Bank's clients.

Through the Treasury Division, the Bank provides investment services to assist its clients with managing short-term investments. Investment securities purchased on behalf of clients include U.S. Treasury securities, U.S. agency securities, commercial paper, Eurodollar deposits, and bankers' acceptances.

In addition to being a special industry niche, real estate lending is also a product offered to the Bank's clients. This product is typically offered to finance commercial real estate owned and operated by the Bank's client companies.

Both the Factoring Division and the Commercial Finance Division offer alternative financing to client companies which do not qualify for the more traditional financing offered through the Bank's niche practices. The Factoring Division generally serves the Bank's emerging growth client base by purchasing clients' accounts receivable at a discount, making operating funds immediately available to the clients, and then managing the collection of these receivables. The Commercial Finance Division assists client companies during periods when profit performance has been interrupted or where greater flexibility is required by providing credit facilities that involve frequent monitoring of the underlying collateral, which generally consists of accounts receivable, inventory and equipment. As clients of the Factoring and Commercial Finance Divisions grow and their financial condition strengthens, they often end up being served through the Bank's niche practices.

The Executive Banking Division focuses on serving the personal banking needs of senior executives and owners of the Bank's client companies, partners and senior executives of venture capital firms, attorneys, accountants, and other professionals whose businesses are affiliated with the Bank's niches.

EMPLOYEES

As of December 31, 1997, 1996 and 1995, the Company and the Bank, in the aggregate, employed 454, 384 and 348 full-time equivalent personnel, respectively, consisting of both full-time and permanent part-time employees. Full-time equivalent is a measurement equivalent to one full-time employee working a standard day, and is based on the number of hours worked in a given month. The Company's and the Bank's employees are not represented by any unions or covered by a collective bargaining agreement. Management of the Company and the Bank believes that, in general, its employee relations are satisfactory.

COMPETITION

The banking and financial services business environment in California, as well as the rest of the U.S., is highly and increasingly competitive. The Bank competes for client loans, deposits and other financial products and services with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market and other

mutual funds, credit unions, and other non-bank financial services providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial products and services than the Bank. The increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. In order to compete with other financial services providers, the Bank principally relies upon promotional activities and industry knowledge in its market areas, personal relationships with clients and other service providers, referral sources established by officers, directors and employees, and specialized services tailored to meet the Bank's clients' needs. In those instances where the Bank is unable to accommodate a client's needs, the Bank will seek to arrange for those services to be provided by its network of correspondents and other service providers.

ECONOMIC CONDITIONS, GOVERNMENT POLICIES, LEGISLATION, AND REGULATION

The Company's profitability, like most other financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond the control of the Company and the Bank, such as inflation, recession and unemployment, and the impact that future changes in domestic and foreign economic conditions might have on the Company and the Bank cannot be predicted.

The Company's business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits, and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on the Company and the Bank of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislative acts, as well as regulations, are enacted which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in the U.S. Congress, in the state legislatures and by various bank regulatory agencies. The likelihood of any legislative or regulatory changes and the impact such changes might have on the Company and the Bank cannot be predicted. See "Item 1. Business-- Supervision and Regulation" for additional discussion on legislative and regulatory changes.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. This regulation is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of shareholders of the Company. Set forth below is a summary description of certain laws and regulations which relate to the operations of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

In recent years, significant legislative proposals and reforms affecting the financial services industry have been discussed and evaluated by the U.S. Congress. Such proposals include, but are not limited to,

legislation to revise the Glass-Steagall Act and the Bank Holding Company Act of 1956, as amended (the "BHCA"), and to expand permissible activities for banks, principally to facilitate the convergence of commercial and investment banking. Certain proposals also have sought to expand insurance activities of banks. It is unclear whether any of these proposals, or any form of them, will be introduced in the current U.S. Congress and become law. Consequently, it is not possible to determine what effect, if any, these and other legislative proposals may have on the Company and the Bank.

THE COMPANY

The Company, as a registered bank holding company, is subject to regulation under the BHCA and Regulation Y, which has been adopted thereunder by the Federal Reserve Board. The Company is required to file with the Federal Reserve Board quarterly, semi-annual and annual reports, and such additional information as the Federal Reserve Board may require pursuant to the BHCA and Regulation Y. The Federal Reserve Board may conduct examinations of the Company and its subsidiaries.

The Federal Reserve Board may require that the Company terminate an activity or terminate control of, liquidate or divest certain subsidiaries or affiliates when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of the Company's banking subsidiaries. The Federal Reserve Board also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest rate ceilings and reserve requirements on such debt.

The Company is required by the Federal Reserve Board to maintain certain minimum levels of capital, and in addition, under certain circumstances, the Company must file written notice with, and obtain approval from, the Federal Reserve Board prior to purchasing or redeeming its equity securities. See "Item

1. Business--Supervision and Regulation--Capital Standards" and "Item 1. Business--Supervision and Regulation--Prompt Corrective Action and Other Enforcement Mechanisms" for further discussion related to minimum capital guidelines.

Under the BHCA and regulations adopted by the Federal Reserve Board, a bank holding company and its non-banking subsidiaries are prohibited from requiring certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Company is required to obtain the prior approval of the Federal Reserve Board for the acquisition of more than 5.0% of the outstanding shares of any class of voting securities, or substantially all of the assets, of any bank or bank holding company. Prior approval of the Federal Reserve Board is also required for the merger or consolidation of the Company and another bank holding company.

The Company is prohibited by the BHCA, except in certain instances prescribed by statute, from acquiring direct or indirect ownership or control of more than 5.0% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiaries. However, the Company, subject to the prior approval of the Federal Reserve Board, may engage in, or acquire voting shares of companies engaged in, activities that are deemed by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making any such determination, the Federal Reserve Board considers whether the performance of such activities by the Company or an affiliate can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. The Federal Reserve Board is also empowered to differentiate between activities commenced "de novo" and activities commenced by acquisition, in whole or in part, of a going concern.

In 1996, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (the "Budget Act") eliminated the requirement that bank holding companies seek Federal Reserve Board approval before engaging "de novo" in permissible non-banking activities as listed in Regulation Y, provided that the bank holding company and its lead depository institution are "well capitalized" and that certain other criteria specified in the Budget Act are met. Similar changes were made to Regulation Y, effective April 21, 1997. For purposes of determining the capital levels at which a bank holding company is considered well capitalized under the Budget Act and Regulation Y, the Federal Reserve Board adopted, as an interim rule, capital ratios (on a consolidated basis) that are, with the exception of the leverage capital ratio (which is lower), the same as the levels set for determining whether a state member bank is well capitalized under Section 38 of the Federal Deposit Insurance Act. See "Item 1. Business--Supervision and Regulation-- Capital Standards" and "Item 1. Business--Supervision and Regulation--Prompt Corrective Action and Other Enforcement Mechanisms" for additional discussion on capital ratios.

Under Federal Reserve Board regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board's regulations or both.

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, the Company and its subsidiaries are subject to periodic examination by, and may be required to file reports with, the California Department of Financial Institutions.

The Company's securities are registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As such, the Company is subject to information reporting, proxy solicitation, insider trading restrictions, and other requirements and restrictions as specified in the Exchange Act.

The Company's common stock is listed on the Nasdaq National Market, and, as such, the Company is subject to the reporting and other requirements of the Nasdaq Stock Market.

THE BANK

The Bank, as a California-chartered bank and a member of the Federal Reserve System, is subject to primary supervision, periodic examination and regulation by the California Commission of Financial Institutions (the "Commissioner") and the Federal Reserve Board. If, as a result of an examination of the Bank, the Federal Reserve Board should determine that the financial condition, capital resources, asset quality, management, earnings prospects, liquidity, sensitivity to market risk, or other aspects of the Bank's operations are unsatisfactory, or that the Bank is violating or has violated any law or regulation, various remedies are available to the Federal Reserve Board. Such remedies include the power to: enjoin "unsafe or unsound" practices, require affirmative action to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in capital, restrict the growth of the Bank, assess civil monetary penalties, remove officers and directors, and ultimately to terminate the Bank's deposit insurance, which, as a California-chartered bank, would result in a revocation of the Bank's charter. The Commissioner has many of the same remedial powers.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank pays a quarterly statutory assessment. For additional discussion related to deposit insurance, see "Item 1. Business--Supervision and Regulation-- Premiums for Deposit Insurance."

Because the Bank's deposits are insured by the FDIC, the Bank is also subject to certain FDIC rules and regulations.

Various requirements and restrictions imposed by state and federal laws and regulations affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including, but not limited to, reserves against deposits, interest rates on deposits and loans, investments, mergers and acquisitions, borrowings, dividends, and locations of branch offices. Further, the Bank is required to maintain certain minimum levels of capital. See "Item 1. Business--Supervision and Regulation--Capital Standards" for further discussion related to minimum capital guidelines.

DIVIDENDS AND OTHER TRANSFERS OF FUNDS

The Company is a legal entity separate and distinct from the Bank. The Company's ability to pay cash dividends is limited by the California Corporations Code to the greater of (a) the Company's retained earnings, or (b) the Company's total assets (net of cash dividends declared) less 150.0% of the Company's liabilities. In addition to the aforementioned cash dividend limitations imposed on the Company, there are statutory and regulatory limitations on the amount of dividends which may be paid to the Company by the Bank. California law restricts the amount available for cash dividends by state-chartered banks to the lesser of the bank's retained earnings or net income for its last three fiscal years (less any cash dividends made during such period). Notwithstanding this restriction, a bank may, with the prior approval of the Commissioner, pay a cash dividend in an amount not exceeding the greater of: (a) the retained earnings of the bank, (b) the net income for such bank's last preceding fiscal year, or (c) the net income of the bank for its current fiscal year.

As a Federal Reserve member bank, there are separate limitations imposed under applicable Federal Reserve Board regulations with respect to the Bank's ability to pay dividends to the Company. In particular, the prior approval of the Federal Reserve Board is required if the total of all cash dividends declared by a Federal Reserve member bank in any calendar year exceeds the bank's net profits (as defined by the Federal Reserve Board) for that year combined with its retained net profits (as defined by the Federal Reserve Board) for the preceding two years, less any transfers to surplus or to a fund for the retirement of preferred stock. Such approval authority may be delegated to the local Federal Reserve Bank under certain circumstances. See "Item 8. Financial Statements and Supplementary Data--Note 15 to the Consolidated Financial Statements--Regulatory Matters" for further discussion on dividend restrictions.

The Federal Reserve Board also has the authority to prohibit the Bank from engaging in activities that, in the Federal Reserve Board's opinion, constitute unsafe or unsound practices in conducting its business. It is possible, depending upon the financial condition of the bank in question and other factors, that the Federal Reserve Board could assert that the payment of dividends or other payments might, under some circumstances, be an unsafe or unsound practice. Further, the Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by banks or bank holding companies under its jurisdiction. Compliance with the standards set forth in such guidelines and the restrictions that are, or may be, imposed under the prompt corrective action provisions of federal law could limit the amount of dividends which the Bank or the Company may pay. The Commissioner may impose similar limitations on the conduct of California-chartered banks. See "Item 1. Business--Supervision and Regulation--Capital Standards" and "Item 1. Business--Supervision and Regulation--Prompt Corrective Action and Other Enforcement Mechanisms," for a discussion of these additional restrictions on capital distributions.

The Bank is subject to certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, the Company or other affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of the Company or other affiliates. Such restrictions prevent the Company and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of

designated amounts. Further, such secured loans and investments by the Bank to, or in, the Company or to, or in, any other affiliate are limited, individually, to 10.0% of the Bank's capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20.0% of the Bank's capital and surplus (as defined by federal regulations). California law also imposes certain restrictions with respect to transactions involving the Company and other controlling persons of the Bank. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See "Item 1. Business--Supervision and Regulation--Prompt Corrective Action and Other Enforcement Mechanisms" for related discussion regarding restrictions on transactions with affiliates.

CAPITAL STANDARDS

The Federal Reserve Board has adopted minimum risk-based capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as commitments, letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under these guidelines, dollar amounts of assets and credit equivalent amounts of off-balance sheet items are adjusted by one of several conversion factors and/or risk adjustment percentages.

A banking organization's total and Tier 1 risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets. Federal banking regulators measure risk-adjusted assets, which include off-balance sheet items, against both total qualifying capital (the sum of qualifying Tier 1 and Tier 2 capital) and qualifying Tier 1 capital. Tier 1 capital consists primarily of common stock, retained earnings, noncumulative perpetual preferred stock (cumulative perpetual preferred stock for bank holding companies), and minority interests in consolidated subsidiaries, less most intangible assets. Tier 2 capital consists of a limited amount of the allowance for loan losses, cumulative perpetual preferred stock, long-term preferred stock, eligible term subordinated debt, and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Federal banking regulators also require banking organizations to maintain a minimum amount of qualifying Tier 1 capital relative to total quarterly average assets, referred to as the Tier 1 leverage ratio. In addition to these uniform risk-based capital guidelines and leverage ratio requirements that apply across the banking industry, the federal banking regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

The federal banking agencies have adopted a joint agency policy statement which provides that the adequacy and effectiveness of a bank's interest rate risk management process and the level of its interest rate exposures are critical factors in the evaluation of the bank's capital adequacy. A bank with material weaknesses in its interest rate risk management process or high levels of interest rate exposure relative to its capital will be directed by the federal banking agencies to take corrective actions. Such actions may include recommendations or directions to raise additional capital, strengthen management expertise, improve management information and measurement systems, reduce levels of interest rate exposure, or some combination thereof depending upon the individual financial institution's circumstances.

The federal banking agencies have issued a final rule which provides that financial institutions which have significant amounts of their assets concentrated in high risk loans or nontraditional banking activities, and who fail to adequately manage these risks, may be required to set aside capital in excess of the regulatory minimums. The federal banking agencies have not imposed any quantitative assessment for determining when these risks are significant, but have identified these issues as important factors they will review in assessing capital adequacy.

Federally supervised banks and savings associations are currently required to report deferred tax assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The federal banking agencies have issued regulations which limit the amount of deferred tax assets that are allowable in computing a financial institution's regulatory capital. The amount of any deferred tax assets in excess of this limit would be excluded from Tier 1 capital and total assets for purposes of regulatory risk-based capital ratio calculations.

Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such changes could affect the ability of the Company and the Bank to grow and could restrict the amount of profits, if any, available for the payment of dividends. See "Item 8. Financial Statements and Supplementary Data--Note 15 to the Consolidated Financial Statements-- Regulatory Matters" for the Company's and Bank's capital ratios as of December 31, 1997.

PROMPT CORRECTIVE ACTION AND OTHER ENFORCEMENT MECHANISMS

Federal banking agencies possess broad powers to take corrective and other supervisory action as deemed appropriate on an insured depository institution and its holding company. Federal laws require each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including, but not limited to, those institutions which fall below one or more of the prescribed minimum required capital ratios. Such laws require each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The Company's and the Bank's capital ratios were in excess of regulatory guidelines for a well capitalized depository institution as of December 31, 1997. See "Item 8. Financial Statements and Supplementary Data--Note 15 to the Consolidated Financial Statements--Regulatory Matters" for the Company's and Bank's capital ratios as of December 31, 1997.

A depository institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as critically undercapitalized unless its capital ratios actually warrant such treatment.

Federal law prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, from making capital distributions, if after such transaction the institution would be undercapitalized.

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

SAFETY AND SOUNDNESS STANDARDS

The federal banking agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, and (v) compensation, fees and benefits. In addition, the federal banking agencies have more recently adopted safety and soundness guidelines with respect to asset quality and earnings. The more recently adopted asset quality guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. The more recently adopted earnings guidelines set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

PREMIUMS FOR DEPOSIT INSURANCE

The Bank's deposit accounts are insured by the Bank Insurance Fund (BIF), as administered by the FDIC, up to the maximum permitted by law. Insurance of deposits may be terminated by the FDIC upon a finding that the financial institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or by the financial institution's primary regulator.

The FDIC charges an annual assessment for the insurance of deposits, which as of December 31, 1997, ranged from 0 to 27 basis points per \$100 of insured deposits, based on the risk a particular financial institution poses to its deposit insurance fund. The risk classification is based on a financial institution's capital group and supervisory subgroup assignment. At December 31, 1997, the Bank's assessment rate was the statutory minimum assessment of \$2,000 per year.

Pursuant to the Budget Act, as of January 1, 1997, the Bank began paying, in addition to its normal deposit insurance premium as a member of the BIF, an amount equal to approximately 1.3 basis points per \$100 of insured deposits toward the retirement of Financing Corporation bonds ("Fico Bonds") issued in the 1980s to assist in the recovery of the savings and loan industry. Members of the Savings Association Insurance Fund (SAIF), by contrast, pay, in addition to their normal deposit insurance premium as members of the SAIF, approximately 6.4 basis points per \$100 of insured deposits toward the retirement of the Fico Bonds. Under the Budget Act, the FDIC is not permitted to establish SAIF assessment rates that are lower than comparable BIF assessment rates. Beginning no later than January 1, 2000, the assessment rate paid toward the retirement of the Fico Bonds will be equal for members of the BIF and the SAIF. The Budget Act also provides for the merging of the BIF and the SAIF by January 1, 1999 provided there are no financial institutions still chartered as savings associations at that time. Should the insurance funds be merged before January 1, 2000, the assessment rate paid by all members of this new fund toward the retirement of the Fico Bonds would be equal upon the time of merger.

INTERSTATE BANKING AND BRANCHING

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed concentration limits. Banks have the ability, subject to certain restrictions, to acquire by acquisition or merger branches located outside their home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to

certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

COMMUNITY REINVESTMENT ACT AND FAIR LENDING DEVELOPMENTS

The Bank is subject to certain fair lending laws and reporting obligations involving home mortgage lending operations and Community Reinvestment Act (CRA) activities. The CRA generally requires the federal banking agencies to evaluate the record of a bank in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods. A bank may be subject to substantial penalties and corrective measures for a violation of certain fair lending laws. The federal banking agencies may take compliance with such laws and CRA obligations into account when regulating and supervising other activities.

A bank's compliance with its CRA obligations is measured via a performance-based evaluation system which bases CRA ratings on a financial institution's actual lending service and investment performance. When a bank holding company applies for approval to acquire a bank or other bank holding company, the Federal Reserve Board will review the CRA assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application. In June 1997, the Federal Reserve Board rated the Bank "satisfactory" in complying with its CRA obligations.

YEAR 2000 COMPLIANCE

In May 1997, the Federal Financial Institutions Examination Council issued an interagency statement to the chief executive officers of all federally supervised financial institutions regarding "year 2000" project awareness. It is expected that unless financial institutions address the technology issues relating to the coming of the year 2000, there will be major disruptions in the operations of financial institutions. The statement provides guidance to financial institutions, providers of data services and all examining personnel of the federal banking agencies regarding the year 2000 issue. The federal banking agencies intend to conduct year 2000 compliance examinations, and the failure to implement a year 2000 compliance program by December 31, 1998 may be viewed by the federal banking agencies as an unsafe and unsound banking practice. In addition, the federal banking agencies will be taking into account year 2000 compliance programs when analyzing applications to acquire a bank or other bank holding company and may deny an application based on year 2000-related issues.

In October 1997, the SEC Divisions of Corporation Finance and Investment Management issued Staff Legal Bulletin No. 5 related to year 2000 issues. This legal bulletin reminded public operating companies to consider their disclosure obligations relating to anticipated costs, problems and uncertainties associated with the year 2000 issue.

The Company and the Bank are aware of the year 2000 issue and the potential risks. The Bank has engaged a third party vendor, a recognized expert in assisting in all phases of year 2000 compliance, as part of a multiphase project to assist the Bank with addressing the year 2000 issue. The first two phases of the year 2000 compliance project, systems inventory and risk assessment, are projected to be completed during the second quarter of 1998. The last phase of the project includes systems replacement and/or modification and client notification, and is projected to begin by the third quarter of 1998. Key customer information systems are projected to be fully compliant by December 31, 1998, with all remaining systems projected to be tested and certified no later than the end of the second quarter of 1999. The expense and related potential impact on the Company's pre-tax earnings of the first two phases of the year 2000 compliance project is expected to approximate \$250,000. Management has not yet assessed the potential financial impact of the last phase of the project (systems replacement and/or modification and client notification).

RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, "Earnings per Share." SFAS No. 128 establishes standards for computing and reporting earnings per share (EPS) and applies to entities with publicly held common stock or financial instruments that are potentially convertible into publicly held common stock. This statement supersedes Accounting Principles Board (APB) Opinion No. 15, "Earnings per Share." The presentation of primary EPS, as required by APB Opinion No. 15, is replaced with a presentation of basic EPS, which is defined in SFAS No. 128. In addition, dual presentation of basic EPS and diluted EPS, as defined in SFAS No. 128, is required on the face of the income statement for all entities that have complex capital structures. Disclosure of a reconciliation between basic EPS and diluted EPS is also required.

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if financial instruments or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed similarly to the fully diluted EPS computation required by APB Opinion No. 15. The Company adopted SFAS No. 128 effective December 31, 1997. See "Item 8. Financial Statements and Supplementary Data--Note 2 to the Consolidated Financial Statements-- Earnings Per Share" for the disclosure of the reconciliations between basic EPS and diluted EPS for the years ended December 31, 1997, 1996 and 1995.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure." SFAS No. 129 establishes standards for disclosing information about an entity's capital structure and applies to all entities. The Company adopted SFAS No. 129 effective December 31, 1997. No additional disclosures in the notes to the consolidated financial statements resulted from the Company's adoption of this statement.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for all entities for reporting comprehensive income and its components in financial statements. This statement requires that all items which are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is equal to net income plus the change in "other comprehensive income," as defined by SFAS No. 130. The only component of other comprehensive income currently applicable to the Company is the net unrealized gain or loss on available-for-sale investments. SFAS No. 130 requires that an entity: (a) classify items of other comprehensive income by their nature in a financial statement, and (b) report the accumulated balance of other comprehensive income separately from common stock and retained earnings in the equity section of the balance sheet. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for publicly held entities to follow in reporting information about operating segments in annual financial statements and requires that those entities also report selected information about operating segments in interim financial statements. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for financial statements issued for periods beginning after December 15, 1997.

In January 1997, the SEC approved amendments (Release No. 33-7386) to Regulations S-X and S-K regarding the disclosure requirements for derivative financial instruments, other financial instruments and derivative commodity instruments (collectively, "market risk sensitive instruments"). The amendments require enhanced disclosure of accounting policies for derivative financial instruments and derivative commodity instruments in the notes to the financial statements. In addition, the amendments expand

existing disclosure requirements to include quantitative and qualitative information regarding the market risk inherent in market risk sensitive instruments. The required quantitative and qualitative information is required to be disclosed outside of the financial statements and related notes thereto.

The accounting policies disclosure requirements are effective for all SEC registrants in filings that include financial statements issued for periods ending after June 15, 1997. See "Item 8. Financial Statements and Supplementary Data--Note 1 to the Consolidated Financial Statements--Significant Accounting Policies--Foreign Exchange Forward Contracts" for the Company's disclosure of these accounting policies.

The quantitative and qualitative information disclosure requirements regarding market risks are effective for all bank and thrift registrant filings which include annual financial statements issued for periods ending after June 15, 1997. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Interest Rate Risk Management" for the Company's disclosure of the required quantitative and qualitative information regarding market risks.

ITEM 2. PROPERTIES

In 1995, the Bank relocated its corporate headquarters and main branch and entered into a 10-year lease on a two story office building located at 3003 Tasman Drive, Santa Clara, California. In July 1997, the Bank finalized an amendment to the original lease associated with its corporate headquarters. The amendment provides for the lease of additional premises, approximating 56,000 square feet, adjacent to the existing headquarters facility. Construction of the interior of the building commenced in February 1998, and it is projected the Company could begin occupying the additional premises between July 1998 and August 1998.

In addition to the headquarters lease in Santa Clara, the Bank has entered into various other leases for properties that serve as branches and/or loan offices. These properties are located in the following locations within California: Irvine, Menlo Park, Palo Alto, San Diego, St. Helena, and West Los Angeles. Offices located outside of California include: Phoenix, Arizona; Boulder, Colorado; Atlanta, Georgia; Rosemont, Illinois; Rockville, Maryland; Wellesley, Massachusetts; Beaverton, Oregon; Austin, Texas; and Bellevue, Washington. All Bank properties are occupied under leases which expire at various dates through May 2005, and in most instances, include options to renew or extend at market rates and terms. The Bank also owns leasehold improvements and furniture, fixtures and equipment at its offices, all of which are used in the Bank's business activities.

ITEM 3. LEGAL PROCEEDINGS

There were no legal proceedings requiring disclosure pursuant to this item pending at December 31, 1997, or at the date of this report.

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

No matters were submitted to a vote by the shareholders of the Company's common stock during the fourth quarter of 1997.

PART II

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

MATTERS

MARKET INFORMATION

The Company's common stock is traded over the counter on the National Association of Securities Dealers Automated Quotation (Nasdaq) National Market under the symbol "SIVB."

The following table presents the high and low sales prices for the Company's common stock for each quarterly period during the last two years, based on the daily closing price as reported by the Nasdaq National Market:

QUARTER	1997		1996	
	LOW	HIGH	LOW	HIGH
First.....	\$ 32.25	\$ 39.50	\$ 20.25	\$ 22.75
Second.....	\$ 33.38	\$ 46.00	\$ 22.50	\$ 26.50
Third.....	\$ 41.88	\$ 59.75	\$ 23.50	\$ 28.25
Fourth.....	\$ 49.13	\$ 58.44	\$ 25.88	\$ 32.25

SHAREHOLDERS

The number of shareholders of record of the Company's common stock was 670 as of January 31, 1998.

DIVIDENDS

The Company declared no cash dividends in 1996 or 1997, and is subject to certain restrictions and limitations on the payment of dividends pursuant to existing and applicable laws and regulations. See "Item 1. Business--Supervision and Regulation--Dividends and Other Transfers of Funds," and "Item 8. Financial Statements and Supplementary Data--Note 15 to the Consolidated Financial Statements-- Regulatory Matters" for additional discussion on restrictions and limitations on the payment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's financial statements and supplementary data as presented in Item 8 of this report. Certain reclassifications have been made to the Company's prior years results to conform with 1997 presentations. Such reclassifications had no effect on the results of operations or shareholders' equity.

	YEARS ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS AND NUMBERS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
INCOME STATEMENT SUMMARY:					
Net interest income.....	\$ 110,824	\$ 87,275	\$ 73,952	\$ 60,260	\$ 50,410
Provision for loan losses.....	10,067	10,426	8,737	3,087	9,702
Noninterest income.....	13,265	11,609	12,565	4,922	9,316
Noninterest expense.....	66,301	52,682	47,925	45,599	47,357
Income before taxes.....	47,721	35,776	29,855	16,496	2,667
Income tax expense.....	20,043	14,310	11,702	7,430	1,066
Net income.....	27,678	21,466	18,153	9,066	1,601
COMMON SHARE SUMMARY:					
Basic earnings per share.....	\$ 2.86	\$ 2.33	\$ 2.08	\$ 1.09	\$ 0.20
Diluted earnings per share.....	2.72	2.21	1.98	1.06	0.20
Book value per share.....	17.50	14.51	11.71	9.08	8.48
Weighted average shares outstanding.....	9,685	9,213	8,747	8,335	7,960
Weighted average diluted shares outstanding.....	10,169	9,691	9,144	8,533	8,163
YEAR-END BALANCE SHEET SUMMARY:					
Loans, net of unearned income.....	\$ 1,174,645	\$ 863,492	\$ 738,405	\$ 703,809	\$ 564,555
Assets.....	2,625,123	1,924,544	1,407,587	1,161,539	992,289
Deposits.....	2,432,407	1,774,304	1,290,060	1,075,373	914,959
Shareholders' equity.....	174,481	135,400	104,974	77,257	70,336
AVERAGE BALANCE SHEET SUMMARY:					
Loans, net of unearned income.....	\$ 973,637	\$ 779,655	\$ 681,255	\$ 592,759	\$ 574,372
Assets.....	2,140,630	1,573,903	1,165,004	956,336	917,569
Deposits.....	1,973,118	1,441,360	1,060,333	877,787	846,298
Shareholders' equity.....	152,118	119,788	91,710	73,461	68,198
CAPITAL RATIOS:					
Total risk-based capital ratio.....	11.5%	11.5%	11.9%	10.1%	11.3%
Tier 1 risk-based capital ratio.....	10.2%	10.2%	10.6%	8.9%	10.1%
Tier 1 leverage ratio.....	7.1%	7.7%	8.0%	8.3%	6.9%
Average shareholders' equity to average assets.....	7.1%	7.6%	7.9%	7.7%	7.4%
SELECTED FINANCIAL RATIOS:					
Return on average assets.....	1.3%	1.4%	1.6%	0.9%	0.2%
Return on average shareholders' equity.....	18.2%	17.9%	19.8%	12.3%	2.3%
Efficiency ratio.....	55.9%	55.9%	60.6%	68.3%	68.9%
Net interest margin.....	5.6%	6.1%	7.1%	7.2%	6.4%

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's financial statements and supplementary data as presented in Item 8 of this report. In addition to historical information, this discussion and analysis includes certain forward-looking statements regarding events and circumstances which may affect the Company's future results. Such forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially. These risks and uncertainties include, but are not limited to, those described in this discussion and analysis, as well as those described in Item 1 of this report.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements included herein, which speak only as of the date made. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect unanticipated events and circumstances occurring after the date of such statements.

Certain reclassifications have been made to the Company's prior years results to conform with 1997 presentations. Such reclassifications had no effect on the results of operations or shareholders' equity.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

The Company reported net income in 1997 of \$27.7 million, compared with net income in 1996 and 1995 of \$21.5 million and \$18.2 million, respectively. Diluted earnings per share totaled \$2.72 in 1997, compared to \$2.21 and \$1.98 in 1996 and 1995, respectively. Return on average equity in 1997 was 18.2%, compared with 17.9% in 1996 and 19.8% in 1995. Return on average assets in 1997 was 1.3%, compared with 1.4% in 1996 and 1.6% in 1995.

The increase in net income for 1997, as compared with 1996, was primarily attributable to growth in net interest income, partially offset by an increase in noninterest expense. The increase in net income for 1996, as compared with 1995, was largely due to growth in net interest income, partially offset by increases in both the provision for loan losses and noninterest expense. The major components of net income and changes in these components are summarized in the following table for the years ended December 31, 1997, 1996 and 1995, and are discussed in more detail on the following pages.

	YEARS ENDED DECEMBER 31,				
	1997	1996	1997 TO 1996 INCREASE (DECREASE)	1995	1996 TO 1995 INCREASE (DECREASE)
	(DOLLARS IN THOUSANDS)				
Net interest income.....	\$ 110,824	\$ 87,275	\$ 23,549	\$ 73,952	\$ 13,323
Provision for loan losses.....	10,067	10,426	(359)	8,737	1,689
Noninterest income.....	13,265	11,609	1,656	12,565	(956)
Noninterest expense.....	66,301	52,682	13,619	47,925	4,757
Income before income taxes.....	47,721	35,776	11,945	29,855	5,921
Income tax expense.....	20,043	14,310	5,733	11,702	2,608
Net income.....	\$ 27,678	\$ 21,466	\$ 6,212	\$ 18,153	\$ 3,313

NET INTEREST INCOME AND MARGIN

Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits, and is the principal source of revenue for the Company. Net interest margin is the amount of net interest income, on a fully taxable- equivalent basis, expressed as a percentage of average interest-earning assets. The average yield earned on

interest-earning assets is the amount of taxable-equivalent interest income expressed as a percentage of average interest-earning assets. The average rate paid on funding sources expresses interest expense as a percentage of average interest-earning assets.

The following table sets forth average assets, liabilities and shareholders' equity, interest income and interest expense, average yields and rates, and the composition of the Company's net interest margin for the years ended December 31, 1997, 1996 and 1995.

YEARS ENDED DECEMBER 31,

	1997		AVERAGE YIELD AND RATE	1996		AVERAGE YIELD AND RATE	1995	
	AVERAGE BALANCE	INTEREST		AVERAGE BALANCE	INTEREST		AVERAGE BALANCE	INTEREST
(DOLLARS IN THOUSANDS)								
Interest-earning assets:								
Federal funds sold and securities purchased under agreement to resell (1).....	\$ 312,398	\$ 17,264	5.5%	\$ 244,408	\$ 13,106	5.4%	\$ 188,415	\$ 11,041
Investment securities:								
Taxable.....	671,390	40,360	6.0	411,743	23,587	5.7	169,740	9,985
Non-taxable (2).....	33,801	2,320	6.9	8,112	749	9.2	6,911	699
Loans: (3), (4), (5)								
Commercial.....	858,459	95,304	11.1	658,316	75,750	11.5	587,343	70,166
Real estate construction and term.....	78,311	8,063	10.3	81,358	8,471	10.4	70,698	7,209
Consumer and other.....	36,867	3,473	9.4	39,981	3,672	9.2	23,214	2,392
Total loans.....	973,637	106,840	11.0	779,655	87,893	11.3	681,255	79,767
Total interest-earning assets.....	1,991,226	166,784	8.4	1,443,918	125,335	8.7	1,046,321	101,492
Cash and due from banks.....	148,044			126,830			114,431	
Allowance for loan losses.....	(37,568)			(30,429)			(24,055)	
Other real estate owned.....	1,192			3,582			5,752	
Other assets.....	37,736			30,002			22,555	
Total assets.....	\$2,140,630			\$1,573,903			\$1,165,004	
Funding sources:								
Interest-bearing liabilities:								
NOW deposits.....	\$ 15,814	308	1.9	\$ 10,256	223	2.2	\$ 11,925	326
Regular money market deposits.....	345,828	9,368	2.7	312,841	8,460	2.7	288,067	7,782
Bonus money market deposits.....	895,259	40,885	4.6	588,235	26,312	4.5	329,031	16,836
Time deposits.....	107,742	4,587	4.3	69,975	2,801	4.0	65,426	2,349
Other borrowings.....	5	--	5.0	30	2	5.5	38	2
Total interest-bearing liabilities.....	1,364,648	55,148	4.0	981,337	37,798	3.9	694,487	27,295
Portion of noninterest-bearing funding sources.....	626,578			462,581			351,834	
Total funding sources.....	1,991,226	55,148	2.8	1,443,918	37,798	2.6	1,046,321	27,295
Noninterest-bearing funding sources:								
Demand deposits.....	608,475			460,053			365,884	
Other liabilities.....	15,389			12,725			12,923	
Shareholders' equity.....	152,118			119,788			91,710	
Portion used to fund interest-earning assets.....	(626,578)			(462,581)			(351,834)	
Total liabilities and shareholders' equity.....	\$2,140,630			\$1,573,903			\$1,165,004	
Net interest income and margin.....		\$ 111,636	5.6%		\$ 87,537	6.1%		\$ 74,197
Memorandum: Total deposits.....	\$1,973,118			\$1,441,360			\$1,060,333	
	AVERAGE YIELD AND RATE							
Interest-earning assets:								
Federal funds sold and securities purchased under agreement to resell (1).....	5.9%							
Investment securities:								
Taxable.....	5.9							
Non-taxable (2).....	10.1							
Loans: (3), (4), (5)								
Commercial.....	11.9							
Real estate construction and term.....	10.2							
Consumer and other.....	10.3							
Total loans.....	11.7							

Total interest-earning assets.....	9.7

Cash and due from banks.....	
Allowance for loan losses.....	
Other real estate owned.....	
Other assets.....	
Total assets.....	
Funding sources:	
Interest-bearing liabilities:	
NOW deposits.....	2.7
Regular money market deposits.....	2.7
Bonus money market deposits.....	5.1
Time deposits.....	3.6
Other borrowings.....	5.3

Total interest-bearing liabilities.....	3.9
Portion of noninterest-bearing funding sources.....	

Total funding sources.....	2.6

Noninterest-bearing funding sources:	
Demand deposits.....	
Other liabilities.....	
Shareholders' equity.....	
Portion used to fund interest-earning assets.....	
Total liabilities and shareholders' equity.....	
Net interest income and margin.....	7.1%

Memorandum: Total deposits.....	

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- (1) Includes average interest-bearing deposits in other financial institutions of \$306, \$345 and \$378 in 1997, 1996 and 1995, respectively.
 - (2) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory rate of 35% in 1997, 1996 and 1995. These adjustments were \$812, \$262 and \$245 for the years ended December 31, 1997, 1996 and 1995, respectively.
 - (3) Average loans include average nonaccrual loans of \$19,659, \$22,897 and \$16,146 in 1997, 1996 and 1995, respectively.
 - (4) Average loans are net of average unearned income of \$6,922, \$4,169 and \$3,352 in 1997, 1996 and 1995, respectively.
 - (5) Loan interest income includes loan fees of \$10,567, \$8,176 and \$7,970 in 1997, 1996 and 1995, respectively.

Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." Net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as "rate change." The following table sets forth changes in interest income and interest expense for each major category of interest-earning assets and interest-bearing liabilities. The table also reflects the amount of change attributable to both volume and rate changes for the years indicated. Changes relating to investments in non-taxable municipal securities are presented on a fully taxable-equivalent basis using the federal statutory rate of 35% in 1997, 1996 and 1995.

	1997 COMPARED TO 1996			1996 COMPARED TO 1995		
	INCREASE (DECREASE) DUE TO CHANGE IN			INCREASE (DECREASE) DUE TO CHANGE IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
	(DOLLARS IN THOUSANDS)					
Interest income:						
Federal funds sold and securities purchased under agreement to resell.....	\$ 3,757	\$ 401	\$ 4,158	\$ 3,003	\$ (938)	\$ 2,065
Investment securities.....	17,269	1,075	18,344	14,097	(445)	13,652
Loans.....	21,286	(2,339)	18,947	11,093	(2,967)	8,126
Increase (decrease) in interest income.....	42,312	(863)	41,449	28,193	(4,350)	23,843
Interest expense:						
NOW deposits.....	108	(23)	85	(36)	(67)	(103)
Regular money market deposits.....	894	14	908	670	8	678
Bonus money market deposits.....	14,021	552	14,573	11,594	(2,118)	9,476
Time deposits.....	1,608	178	1,786	182	270	452
Other borrowings.....	--	(2)	(2)	(1)	1	--
Increase (decrease) in interest expense.....	16,631...	719	17,350	12,409	(1,906)	10,503
Increase (decrease) in net interest income...	\$ 25,681	\$ (1,582)	\$ 24,099	\$ 15,784	\$ (2,444)	\$ 13,340

Net interest income, on a fully taxable-equivalent basis, totaled \$111.6 million in 1997, an increase of \$24.1 million, or 27.5%, from the \$87.5 million total in 1996. The increase in net interest income was attributable to a \$41.4 million, or 33.1%, increase in interest income, offset by a \$17.4 million, or 45.9%, increase in interest expense over the comparable prior year period. Net interest income in 1996, on a fully taxable-equivalent basis, increased \$13.3 million, or 18.0%, compared to the \$74.2 million total in 1995. This increase in net interest income was the result of a \$23.8 million, or 23.5%, increase in interest income, offset by a \$10.5 million, or 38.5%, increase in interest expense over the comparable prior year period.

The \$41.4 million increase in interest income for 1997, as compared to 1996, was the result of a \$42.3 million favorable volume variance, slightly offset by a \$0.9 million unfavorable rate variance. The \$42.3 million favorable volume variance resulted from a \$547.3 million, or 37.9%, increase in average interest-earning assets over the comparable prior year period. The increase in average interest-earning assets resulted from strong growth in the Company's average deposits, which increased \$531.8 million, or 36.9%, from 1996 to 1997. The increase in average interest-earning assets consisted of loans, which increased \$194.0 million, plus a combination of highly liquid, lower-yielding federal funds sold, securities purchased under agreement to resell and investment securities, which collectively increased \$353.3 million accounting for 64.6% of the total increase in average interest-earning assets.

Average loans increased \$194.0 million, or 24.9%, in 1997 as compared to 1996, resulting in a \$21.3 million favorable volume variance. This growth was widely distributed throughout the loan portfolio,

as reflected by increased loan balances in most of the Company's technology, life sciences and special industry niche practices, in specialized lending products such as factoring, and throughout the Company's loan offices located across the nation.

Average investment securities for 1997 increased \$285.3 million, or 68.0%, as compared to 1996, resulting in a \$17.3 million favorable volume variance. The aforementioned strong growth in average deposits exceeded the growth in average loans during 1997, and generated excess funds that were largely invested in U.S. agency securities, U.S. Treasury securities, mortgage-backed securities, and municipal securities. The growth in the investment portfolio reflected Management's actions to both increase the Company's portfolio of longer-term securities in an effort to obtain available higher yields, and to increase as well as to further diversify the Company's portfolio of short-term investments in response to a significant increase in liquidity.

Average federal funds sold and securities purchased under agreement to resell in 1997 increased a combined \$68.0 million, or 27.8%, over the prior year, resulting in a \$3.8 million favorable volume variance. This increase was largely due to the aforementioned strong growth in average deposits during 1997 coupled with Management's actions to further diversify the Company's portfolio of short-term investments.

For additional discussion of the Company's liquidity and investment management activities, see the Item 7 sections entitled "Interest Rate Risk Management" and "Liquidity."

In 1997, a \$2.3 million unfavorable rate variance associated with loans was partially offset by a combined \$1.5 million favorable rate variance related to federal funds sold, securities purchased under agreement to resell and investment securities, resulting in a decrease in interest income of \$0.9 million as compared to 1996. The unfavorable rate variance related to loans resulted from a 30 basis points decline in the average yield on loans from 1996 to 1997, and was largely due to increased competition. The average yields on federal funds sold, securities purchased under agreement to resell and investment securities increased in 1997 from the prior year, and resulted from both an increase in short-term market interest rates and Management's actions to increase the Company's portfolio of longer-term securities in an effort to obtain available higher yields.

The yield on average interest-earning assets decreased 30 basis points in 1997 from the comparable prior year period. This decrease resulted from a decline in the average yield on loans, largely due to increased competition, and a shift in the composition of average interest-earning assets towards a higher percentage of highly liquid, lower-yielding federal funds sold, securities purchased under agreement to resell and investment securities. This shift in the composition of average interest-earning assets resulted from the aforementioned strong growth in average deposits outpacing growth in the Company's average loans during 1997.

The \$23.8 million increase in interest income for 1996, as compared to 1995, was due to a \$28.2 million favorable volume variance, slightly offset by a \$4.4 million unfavorable rate variance. The \$28.2 million favorable volume variance was attributable to growth in average interest-earning assets, which increased \$397.6 million, or 38.0%, from the prior year comparable period. The increase in average interest-earning assets consisted of increases in each component of the Company's interest-earning assets, and resulted from significant growth in average deposits, which were up \$381.0 million, or 35.9%, from the comparable prior year period.

Average loans increased \$98.4 million, or 14.4%, in 1996 as compared to 1995. This year-over-year increase was largely related to the Company's special industry niches, specialized lending products and loan offices opened during 1995 and 1996. Excluding the impact of these newer offices, the Company's technology and life sciences niche experienced minimal net loan growth during 1996 as an active market for public stock offerings, coupled with merger and acquisition activity involving the Company's client base, resulted in the payoff or reduction of a number of credit facilities by the Company's clients.

The increase in average investment securities during 1996, as compared to 1995, of \$243.2 million, or 137.7%, was primarily centered in U.S. agency securities and commercial paper. This increase resulted from the aforementioned strong deposit growth in 1996 having exceeded the growth in loans and was the result of Management's decision to increase as well as to further diversify the Company's portfolio of short-term investments in connection with its liquidity and investment management activities. This increase in average investment securities also reflected Management's decision to lengthen the average life of the Company's investment portfolio in an effort to obtain the higher yields available due to the steepening of the yield curve during 1996. Average federal funds sold and securities purchased under agreement to resell increased \$56.0 million, or 29.7%, in 1996, and this increase was also a result of the aforementioned strong growth in deposits coupled with Management's actions to further diversify the Company's portfolio of short-term investments in response to a significant increase in liquidity.

Unfavorable rate variances associated with each component of interest-earnings assets in 1996 resulted in a decrease in interest income of \$4.4 million as compared to the prior year. Short-term market interest rates declined during the latter part of 1995 and early 1996, and remained relatively unchanged for the remainder of 1996. As a result of this decline, the Company earned lower yields in 1996 on federal funds sold, securities purchased under agreement to resell and its investment securities, a significant portion of which were short-term in nature, resulting in a \$1.4 million unfavorable rate variance as compared to the prior year. The average yield on loans in 1996 decreased 40 basis points from 1995, accounting for the remaining \$3.0 million of the total unfavorable rate variance. This decrease was primarily attributable to both increased competition and a decline in the average prime rate charged by the Company, as a substantial portion of the Company's loans are prime rate-based. The overall decrease in the yield on average interest-earning assets of one percent from 1995 to 1996 was due to a combination of increased competition, the decline in short-term market interest rates as well as the Company's prime rate, and a shift in the composition of average interest-earning assets towards a higher percentage of short-term, lower-yielding investment securities, as the Company's strong growth in average deposits during 1996 outpaced growth in average loans during the year.

Interest expense in 1997 increased \$17.4 million from 1996. This increase was due to an unfavorable volume variance of \$16.6 million and an unfavorable rate variance of \$0.7 million. The unfavorable volume variance resulted from a \$383.3 million, or 39.1%, increase in average interest-bearing liabilities in 1997 as compared to 1996. This increase was largely concentrated in the Company's bonus money market deposit product, which increased \$307.0 million, or 52.2%, and was explained by high levels of client liquidity attributable to a strong inflow of investment capital into the venture capital community during 1997, and by growth in the number of clients served by the Company. The year-over-year \$0.7 million unfavorable rate variance was primarily due to an increase during 1997 in the average rate paid on the Company's bonus money market deposit product which resulted from an increase in short-term market interest rates, as well as to a shift in the composition of interest-bearing liabilities towards a higher percentage of deposits in the bonus money market deposit product.

The increase in interest expense for 1996 of \$10.5 million, as compared to 1995, was primarily due to a \$12.4 million unfavorable volume variance, partially offset by a favorable rate variance of \$1.9 million. The unfavorable volume variance resulted from a \$286.9 million, or 41.3%, increase in average interest-bearing liabilities. This increase was almost entirely related to the Company's bonus money market deposit product, which increased \$259.2 million from the prior year due to the high level of client liquidity attributable to the strong inflow of investment capital into the venture capital community and into the public equity markets, and due to growth during 1996 in the number of clients served by the Company.

Changes in the average rates paid on interest-bearing liabilities had a \$1.9 million favorable impact on interest expense in 1996 as compared to 1995. This decrease in interest expense largely resulted from a reduction in the average rate paid on the Company's bonus money market deposit product from 5.1% in 1995 to 4.5% in 1996, partially offset by a shift in the composition of interest-bearing liabilities towards a higher percentage of deposits in the Company's bonus money market deposit product. The reduction

during 1996 in the average rate paid on the Company's bonus money market deposit product was due to both a decline in short-term market interest rates during the latter part of 1995 and early 1996, and to a reduction in the pricing of this deposit product in early 1996.

PROVISION FOR LOAN LOSSES

The provision for loan losses is based on Management's evaluation of the adequacy of the existing allowance for loan losses in relation to total loans, and on Management's periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans and loan commitments.

The Company's provision for loan losses totaled \$10.1 million in 1997, compared to \$10.4 million and \$8.7 million in 1996 and 1995, respectively. For a more detailed discussion of credit quality and the allowance for loan losses, see the Item 7 section entitled "Financial Condition--Credit Quality and the Allowance for Loan Losses."

NONINTEREST INCOME

The following table summarizes the components of noninterest income for the past three years:

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
Disposition of client warrants.....	\$ 5,480	\$ 5,389	\$ 8,205
Letter of credit and foreign exchange income.....	4,512	3,423	3,007
Deposit service charges.....	1,772	1,663	1,402
Investment gains (losses).....	90	1	(768)
Other.....	1,411	1,133	719
Total noninterest income.....	\$ 13,265	\$ 11,609	\$ 12,565

Noninterest income increased \$1.7 million, or 14.3%, in 1997 as compared to 1996. This increase was largely due to a \$1.1 million increase in letter of credit fees, foreign exchange fees and other trade finance income, coupled with a combined increase of \$0.4 million in the Company's other components of fee income. Noninterest income decreased \$1.0 million, or 7.6%, in 1996 as compared to 1995. This decrease was due to a \$2.8 million decline in income from the disposition of client warrants, partially offset by a combined increase of \$1.1 million in the Company's components of fee income, and by a \$0.8 million decrease in losses incurred on sales of investment securities.

Income from the disposition of client warrants totaled \$5.5 million, \$5.4 million and \$8.2 million in 1997, 1996 and 1995, respectively. The Company has historically obtained rights to acquire stock (in the form of warrants) in certain clients as part of negotiated credit facilities. The receipt of warrants does not change the loan covenants or other collateral control techniques employed by the Company to mitigate the risk of a loan becoming nonperforming, and collateral requirements on loans with warrants are similar to lending arrangements where warrants are not obtained. The timing and amount of income from the disposition of client warrants typically depends upon factors beyond the control of the Company, including the general condition of the public equity markets as well as the merger and acquisition environment, and therefore cannot be predicted with any degree of accuracy and is likely to vary materially from period to period. During the years ended December 31, 1997, 1996 and 1995, a significant portion of the income realized by the Company from the disposition of client warrants was offset by expenses related to the Company's efforts to build an infrastructure sufficient to support present and prospective business activities, and to evaluate and pursue new business opportunities, and was also offset by the need to increase the provision for loan losses during those years. As opportunities present themselves in future

periods, the Company may continue to reinvest some or all of the income realized from the disposition of client warrants in furthering its business strategies.

Letter of credit fees, foreign exchange fees and other trade finance income totaled \$4.5 million in 1997, an increase of \$1.1 million, or 31.8%, from the \$3.4 million total in 1996, and an increase of \$1.5 million, or 50.0%, from the \$3.0 million total in 1995. The growth in this category of noninterest income reflects a concerted effort by Management to expand the penetration of trade finance-related products and services among the Company's growing client base, a large percentage of which provide products and services in international markets.

Income related to deposit service charges totaled \$1.8 million, \$1.7 million and \$1.4 million in 1997, 1996 and 1995, respectively. Clients compensate the Company for depository services either through earnings credits computed on their demand deposit balances, or via explicit payments recognized by the Company as deposit service charges income. The increase in deposit service charges income from 1995 through 1997 was primarily attributable to the aforementioned growth in the Company's client base.

The Company realized a \$0.1 million gain on sales of investment securities during 1997, compared to a nominal gain on sales of investment securities during 1996 and a loss on sales of investment securities totaling \$0.8 million in 1995. The securities sold during 1997 were primarily U.S. agency securities, while the securities sold during 1995 were primarily mortgage-backed securities. All investment securities sold were classified as available-for-sale, and all sales were conducted as a normal component of the Company's asset/liability and liquidity management activities. For additional related discussion, see the Item 7 sections entitled "Interest Rate Risk Management" and "Liquidity."

Other noninterest income is largely composed of service-based fee income, and totaled \$1.4 million in 1997, compared to \$1.1 million and \$0.7 million in 1996 and 1995, respectively. The increase in 1997, as compared to 1996, was primarily due to a higher volume of cash management services related to the Company's growing client base. The increase in 1996, as compared to 1995, was the result of increased fees associated with the Company's periodic examinations of client accounts receivables which are pledged as collateral on loans.

NONINTEREST EXPENSE

Noninterest expense in 1997 totaled \$66.3 million, a \$13.6 million, or 25.9%, increase from 1996. Total noninterest expense was \$52.7 million in 1996, up \$4.8 million, or 9.9%, from 1995. Management closely monitors the Company's level of noninterest expense using a variety of financial ratios, including the efficiency ratio. The efficiency ratio is calculated by dividing the amount of noninterest expense, excluding costs associated with other real estate owned, by adjusted revenues, defined as the total of net interest income and noninterest income, excluding income from the disposition of client warrants and gains or losses related to sales of investment securities. This ratio reflects the level of operating expense required to generate \$1 of operating revenue. The Company's efficiency ratio was 55.9% for both 1997 and 1996, down

from 60.6% in 1995. The following table presents the detail of noninterest expense and the incremental contribution of each expense line item to the Company's efficiency ratio:

	YEARS ENDED DECEMBER 31,					
	1997		1996		1995	
	AMOUNT	PERCENT OF ADJUSTED REVENUES	AMOUNT	PERCENT OF ADJUSTED REVENUES	AMOUNT	PERCENT OF ADJUSTED REVENUES
	(DOLLARS IN THOUSANDS)					
Compensation and benefits.....	\$ 40,084	33.8%	\$ 31,417	33.6%	\$ 27,161	34.3%
Professional services.....	6,710	5.7	4,987	5.3	5,160	6.5
Business development and travel.....	4,514	3.8	2,918	3.1	1,982	2.5
Furniture and equipment.....	3,620	3.1	3,239	3.5	3,235	4.1
Net occupancy expense.....	3,410	2.9	3,095	3.3	3,616	4.6
Postage and supplies.....	1,600	1.3	1,448	1.6	1,191	1.5
Advertising and promotion.....	1,448	1.2	1,183	1.3	613	0.8
Telephone.....	1,444	1.2	1,277	1.4	1,006	1.3
Other.....	3,395	2.9	2,720	2.9	3,973	5.0
Total, excluding cost of other real estate owned.....	66,225	55.9%	52,284	55.9%	47,937	60.6%
Cost of other real estate owned.....	76		398		(12)	
Total noninterest expense.....	\$ 66,301		\$ 52,682		\$ 47,925	

Compensation and benefits expenses totaled \$40.1 million in 1997, an \$8.7 million, or 27.6%, increase over the \$31.4 million incurred in 1996. Compensation and benefits expenses in 1996 increased \$4.3 million, or 15.7%, from the \$27.2 million total in 1995. The increase in compensation and benefits expenses in both 1997 and 1996, over the respective prior year periods, was largely the result of an increase in the number of average full-time equivalent personnel (FTE) employed by the Company. Average FTE were 417 in 1997, compared with 363 and 336 in 1996 and 1995, respectively. The increase in FTE from 1995 through 1997 was primarily due to a combination of the Company's efforts to develop and support new markets through geographic expansion, to develop and expand products, services and niches, and to build an infrastructure sufficient to support present and prospective business activities. Further growth in the Company's number of FTE is likely to occur during future years as a result of the continued expansion of the Company's business activities.

During the third and fourth quarters of 1997, the Company granted a total of 104,500 shares of its common stock to numerous employees, subject to certain vesting requirements and resale restrictions (restricted stock). For these restricted stock grants, unearned compensation equivalent to the aggregate \$5.9 million market value of the Company's common stock on the dates of grant was charged to shareholders' equity and will subsequently be amortized into compensation and benefits expense over the four-year vesting period.

Professional services expenses, which consist of costs associated with corporate legal services, litigation settlements, accounting and auditing services, consulting, and the Company's Board of Directors, totaled \$6.7 million in 1997, a \$1.7 million, or 34.5%, increase from the \$5.0 million total in 1996. The Company incurred \$5.2 million in professional services expenses in 1995. The increase in professional services expenses in 1997, as compared to 1996, primarily related to both an increase in consulting fees associated with several business initiatives and an increase in legal fees largely related to the workout of two commercial credits. The level of professional services expenses during the past three years reflects the extensive efforts undertaken by the Company to continue to build and support its infrastructure, as well as evaluate and pursue new business opportunities, and also reflects the Company's efforts in outsourcing

several corporate functions, such as internal audit, facilities management and credit review, where the Company believes it can achieve a combination of cost savings and increased quality of service.

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

Business development and travel expenses totaled \$4.5 million in 1997, an increase of \$1.6 million, or 54.7%, compared to the \$2.9 million total in 1996. The Company incurred \$2.0 million in business development and travel expenses in 1995. The increase in business development and travel expenses during each of the last two years was largely attributable to overall growth in the Company's business, including both an increase in the number of FTE and expansion into new geographic markets.

Occupancy, furniture and equipment expenses totaled \$7.0 million in 1997, \$6.3 million in 1996 and \$6.9 million in 1995. The increase in occupancy, furniture and equipment expenses in 1997, as compared to 1996, was primarily the result of investments in computer equipment and software associated with technology upgrades and the Company's aforementioned growth in personnel. The higher level of occupancy, furniture and equipment expenses in 1995, as compared to the combined amount incurred in 1996, was primarily related to certain non-recurring costs incurred during 1995 in connection with the Company's move into a new headquarters facility. These non-recurring costs included both the disposal and purchase of leasehold improvements and equipment. The move into the new facility was completed in the fourth quarter of 1995. Occupancy, furniture and equipment expenses in 1995 and 1996 were also impacted by costs related to furniture, computer equipment and other related costs associated with both the Company's aforementioned growth in personnel and its geographic expansion during 1995 and 1996. The Company opened new loan offices in Atlanta, Georgia and Phoenix, Arizona during 1997, and in West Los Angeles, California and Rosemont, Illinois in early 1998, and intends to continue its geographic expansion into other emerging technology marketplaces across the U.S. during future years.

In July 1997, the Bank finalized an amendment to the original lease associated with its corporate headquarters. The amendment provides for the lease of additional premises, approximating 56,000 square feet, adjacent to the existing headquarters facility. Construction of the interior of the building commenced in February 1998, and it is projected the Company could begin occupying these additional premises between July 1998 and August 1998. Future minimum rental payments related to the additional premises are projected to be approximately \$0.8 million for 1998, \$1.1 million per year for 1999 through 2001, \$1.2 million per year for 2002 through 2003, \$1.3 million in the year 2004, and \$0.6 million in the year 2005. The Company expects to incur other occupancy, furniture and equipment expenses in 1998 and future periods associated with the construction, furnishing and maintenance of these additional premises, in addition to the future minimum rental payments detailed above.

The Company and the Bank are aware of the "year 2000" issue and the potential risks. The Bank has engaged a third party vendor, a recognized expert in assisting in all phases of year 2000 compliance, as part of a multiphase project to assist the Bank with addressing the year 2000 issue. The first two phases of the year 2000 compliance project, systems inventory and risk assessment, are projected to be completed during the second quarter of 1998. The last phase of the project includes systems replacement and/or modification and client notification, and is projected to begin by the third quarter of 1998. Key customer information systems are projected to be fully compliant by December 31, 1998, with all remaining systems projected to be tested and certified no later than the end of the second quarter of 1999. The expense and related potential impact on the Company's pre-tax earnings of the first two phases of the year 2000 compliance project is expected to approximate \$250,000. Management has not yet assessed the potential financial impact of the last phase of the project (systems replacement and/or modification and client notification).

Postage and supplies expenses totaled \$1.6 million, \$1.4 million and \$1.2 million in 1997, 1996 and 1995, respectively. Total telephone expenses were \$1.4 million in 1997, \$1.3 million in 1996 and \$1.0 million in 1995. The increase in postage and supplies and telephone expenses during each of the past two years was largely the result of overall growth in the Company's business, including both an increase in the number of FTE and expansion into new geographic markets.

Advertising and promotion expenses totaled \$1.4 million in 1997, \$1.2 million in 1996 and \$0.6 million in 1995. The increase in advertising and promotion expenses in 1996 and 1997, compared to 1995, reflects a concerted effort by the Company to increase its marketing efforts nationwide. These efforts have been largely facilitated through a formal relationship with an advertising and public relations firm.

Other noninterest expenses totaled \$3.4 million, \$2.7 million and \$4.0 million in 1997, 1996 and 1995, respectively. The increase in other noninterest expenses in 1997 of \$0.7 million, as compared to 1996, was largely due to both expenses associated with an asset which was acquired through foreclosure during 1997, and an increase in costs associated with certain vendor provided services resulting from growth in the Company's client base. The \$1.3 million decrease in other noninterest expenses from 1995 to 1996 was primarily related to lower FDIC deposit insurance premiums resulting from reductions in the Bank's insurance premium assessment rate during both the third quarter of 1995 and the first quarter of 1996 due to completion of the recapitalization of the Bank Insurance Fund.

The Company incurred minimal net costs associated with other real estate owned (OREO) in 1997 and 1995, and incurred \$0.4 million in net OREO-related costs in 1996. The net OREO-related costs in 1996 were largely explained by the write-down in the first quarter of 1996 of one property owned by the Company. The Company's net costs associated with OREO include: maintenance expenses, property taxes, marketing costs, net operating expense or income associated with income-producing properties, property write-downs, and gains or losses on the sales of such properties.

INCOME TAXES

The Company's effective income tax rate was 42.0% in 1997, compared to 40.0% in 1996 and 39.2% in 1995. The increase in the Company's effective income tax rate for 1997, as compared to 1996, and the increase in the Company's effective income tax rate for 1996, as compared to 1995, were attributable to adjustments in the Company's estimate of its income tax liabilities.

FINANCIAL CONDITION

The Company's total assets were \$2.6 billion at December 31, 1997, an increase of \$700.6 million, or 36.4%, compared to \$1.9 billion at December 31, 1996.

FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Federal funds sold and securities purchased under agreement to resell totaled a combined \$321.8 million at December 31, 1997, an increase of \$11.4 million, or 3.7%, compared to the \$310.3 million outstanding at the prior year end. This increase was attributable to the Company investing excess funds, resulting from the strong growth in deposits during 1997 having exceeded the growth in loans, in these types of short-term, liquid investments, and was coupled with Management's actions to diversify the Company's portfolio of short-term investments.

INVESTMENT SECURITIES

The following table details the composition of investment securities, all of which were classified as available-for-sale and reported at fair value, at December 31, 1997, 1996 and 1995.

	DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
U.S. Treasury securities.....	\$ 217,685	\$ 75,547	\$ 39,898
U.S. agencies and corporations:			
Discount notes and bonds	462,405	298,488	163,757
Mortgage-backed securities.....	144,437	8,168	--
Collateralized mortgage obligations.....	41,051	58,038	57,207
Obligations of states and political subdivisions.....	60,436	22,787	6,581
Commercial paper.....	41,829	143,086	52,523
Bankers' acceptances.....	16,140	--	--
Other debt securities.....	25,007	13,000	--
Other equity securities.....	4,914	5,908	1,343
	\$ 1,013,904	\$ 625,022	\$ 321,309

Investment securities totaled \$1.0 billion at December 31, 1997. This represented a \$388.9 million, or 62.2%, increase over the December 31, 1996 balance of \$625.0 million. This increase resulted from excess funds that were generated by strong growth in the Company's deposits outpacing the growth in loans during 1997, and primarily consisted of U.S. Treasury securities, U.S. agency securities, mortgage-backed securities, and municipal securities, partially offset by a decrease in commercial paper. The growth in the investment portfolio reflected Management's actions to both increase the portfolio of longer-term securities in an effort to obtain available higher yields, and to increase as well as to further diversify the Company's portfolio of short-term investments in response to a significant increase in liquidity.

At December 31, 1997, there were no investment securities held by the Company which were issued by a single party, excluding securities issued by the U.S. Government or by U.S. Government agencies and corporations, and which exceeded 10.0% of the Company's shareholders' equity at year end.

The following table provides the remaining contractual principal maturities and fully taxable-equivalent yields on investment securities held by the Company as of December 31, 1997. The weighted-average yield is computed using the amortized cost of available-for-sale securities, which are reported at fair value. Expected remaining maturities of mortgage-backed securities and collateralized mortgage obligations will generally differ from their contractual maturities because borrowers may have the right to prepay

obligations with or without penalties. Other equity securities, consisting largely of the common stock of client companies, were included in the table below as maturing after ten years.

DECEMBER 31, 1997

	TOTAL		ONE YEAR OR LESS		AFTER ONE YEAR TO FIVE YEARS		AFTER FIVE YEARS TO TEN YEARS
	FAIR VALUE	WEIGHTED-AVERAGE YIELD	FAIR VALUE	WEIGHTED-AVERAGE YIELD	FAIR VALUE	WEIGHTED-AVERAGE YIELD	FAIR VALUE
(DOLLARS IN THOUSANDS)							
U.S. Treasury securities.....	\$ 217,685	5.9%	\$ 104,066	5.5%	\$ 113,619	6.3%	--
U.S. agencies and corporations:							
Discount notes and bonds.....	462,405	6.0	210,735	5.7	251,670	6.3	--
Mortgage-backed securities.....	144,437	6.5	--	--	--	--	\$ 9,776
Collateralized mortgage obligations.....	41,051	6.8	--	--	902	5.6	17,362
Obligations of states and political subdivisions.....	60,436	6.5	42,969	6.1	7,189	8.2	10,278
Commercial paper.....	41,829	5.8	41,829	5.8	--	--	--
Bankers' acceptances...	16,140	5.7	16,140	5.7	--	--	--
Other debt securities.....	25,007	5.8	13,000	5.7	--	--	12,007
Other equity securities.....	4,914	--	--	--	--	--	--
		--		--		--	
		--		--		--	
Total.....	\$1,013,904	6.1%	\$ 428,739	5.7%	\$ 373,380	6.3%	\$ 49,423
		--		--		--	
		--		--		--	

	AFTER TEN YEARS		
	WEIGHTED-AVERAGE YIELD	FAIR VALUE	WEIGHTED-AVERAGE YIELD
U.S. Treasury securities.....	--	--	--
U.S. agencies and corporations:			
Discount notes and bonds.....	--	--	--
Mortgage-backed securities.....	6.5%	\$ 134,661	6.5%
Collateralized mortgage obligations.....	7.2	22,787	6.5
Obligations of states and political subdivisions.....	7.1	--	--
Commercial paper.....	--	--	--
Bankers' acceptances...	--	--	--
Other debt securities.....	6.0	--	--
Other equity securities.....	--	4,914	--
	--		--
Total.....	6.8%	\$ 162,362	6.3%
	--		--
	--		--

Mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO) pose risks not associated with fixed maturity bonds, primarily related to the ability of the mortgage borrower to prepay the loan with or without penalty. This risk, known as prepayment risk, may cause the MBS and the CMO to remain outstanding for a period of time different than that assumed at the time of purchase. When interest rates

decline, prepayments generally tend to increase, causing the average expected remaining maturity of the MBS and the CMO to decline. Conversely, if interest rates rise, prepayments tend to decrease, lengthening the average expected remaining maturity of the MBS and the CMO.

LOANS

The composition of the loan portfolio, net of unearned income, for each of the past five years is as follows:

	DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS)				
Commercial.....	\$ 1,051,218	\$ 755,699	\$ 622,488	\$ 613,469	\$ 470,649
Real estate construction.....	53,583	27,540	17,194	10,512	17,283
Real estate term.....	33,395	44,475	56,845	58,977	49,710
Consumer and other.....	36,449	35,778	41,878	20,851	26,913
Total loans.....	\$ 1,174,645	\$ 863,492	\$ 738,405	\$ 703,809	\$ 564,555

Total loans at December 31, 1997, net of unearned income, were \$1.2 billion, representing a \$311.2 million, or 36.0%, increase compared to the \$863.5 million outstanding at December 31, 1996. The increase in loans from the 1996 year-end total was widely distributed throughout the loan portfolio, as evidenced by increased loan balances in most of the Company's market niches, specialized lending products and loan offices.

The following table sets forth the remaining contractual maturity distribution of the Company's loans (reported on a gross basis) at December 31, 1997 for fixed and variable rate commercial and real estate construction loans:

	DECEMBER 31, 1997			
	ONE YEAR OR LESS	AFTER ONE YEAR AND THROUGH FIVE YEARS	AFTER FIVE YEARS	TOTAL
	(DOLLARS IN THOUSANDS)			
Fixed rate loans:				
Commercial.....	\$ 14,975	\$ 94,785	\$ 79,267	\$ 189,027
Real estate construction.....	--	132	--	132
Total fixed rate loans.....	\$ 14,975	\$ 94,917	\$ 79,267	\$ 189,159
Variable rate loans:				
Commercial.....	\$ 510,514	\$ 308,956	\$ 49,875	\$ 869,345
Real estate construction.....	38,846	15,265	--	54,111
Total variable rate loans.....	\$ 549,360	\$ 324,221	\$ 49,875	\$ 923,456

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

A substantial percentage of the Company's loans are commercial in nature, and such loans are generally made to emerging growth and middle-market companies in a variety of industries. As of December 31, 1997, no particular industry sector (as identified by Standard Industrial Codes) represented more than 10.0% of the Company's loan portfolio.

Management of the Company has been undertaking an ongoing evaluation of the economic events occurring in Asia during recent months. Based on the results to date from this evaluation, no significant current or forecasted negative impact has been identified with respect to the Company's loan growth, credit quality, overall financial condition, and results of operations. Future events and circumstances surrounding the economic conditions in Asia cannot be predicted, nor can the impact of these future events and circumstances on the Company's loan growth, credit quality, overall financial condition, and results of operations be determined at the present time.

General conditions in the public equity markets, in particular those related to public stock offerings, as well as the merger and acquisitions environment, may have an impact on the Bank. One consequence of an active market for public stock offerings and mergers and acquisitions is the payoff or reduction of a portion of the Bank's loans by some of its clients which complete public stock offerings, or merge with, or are acquired by, another company. Such a reduction in outstanding loans, if significant, could adversely affect the Company's consolidated earnings.

LOAN ADMINISTRATION

Authority over the Company's loan policies resides with the Company's Board of Directors. This authority is managed through the approval and periodic review of the Company's loan policies. The Board of Directors delegates authority to the Directors' Loan Committee to supervise the loan underwriting, approval and monitoring activities of the Company. The Directors' Loan Committee consists of outside Board of Directors members and the Company's Chief Executive Officer, who serves as an alternate.

Under the oversight of the Directors' Loan Committee, lending authority is delegated to the Chief Credit Officer and the Company's Internal Loan Committee consisting of the Chief Credit Officer, practice managers and loan administrators. Requests for new and existing credits which meet certain size

and underwriting criteria may be approved outside of the Company's Internal Loan Committee by designated practice managers jointly with a loan administrator. Credits exceeding \$10.0 million must be approved by the Directors' Loan Committee.

The loan approval and committee system is administered by the Company's Credit Administration Group. Loan administrators assigned to each practice report to the Chief Credit Officer, who also acts as chair of the Internal Loan Committee.

CREDIT QUALITY AND THE ALLOWANCE FOR LOAN LOSSES

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. While the Bank follows underwriting and credit monitoring procedures which it believes are appropriate in growing and managing the loan portfolio, in the event of nonperformance by these other parties, the Bank's potential exposure to credit losses could significantly affect the Company's consolidated financial position and earnings.

Lending money involves an inherent risk of nonpayment. Through the administration of loan policies and monitoring of the loan portfolio, Management seeks to reduce such risks. The allowance for loan losses is an estimate to provide a financial buffer for losses, both identified and unidentified, in the loan portfolio.

Management regularly reviews and monitors the loan portfolio to determine the risk profile of each credit, and to identify credits whose risk profiles have changed. This review includes, but is not limited to, such factors as payment status, the financial condition of the borrower, borrower compliance with loan covenants, underlying collateral values, potential loan concentrations, and general economic conditions. Potential problem credits are identified and, based upon known information, action plans are developed.

Management has established an evaluation process designed to determine the adequacy of the allowance for loan losses. This process attempts to assess the risk of losses inherent in the loan portfolio by segregating the allowance for loan losses into three components: "specific," "loss migration," and "general." The specific component is established by allocating a portion of the allowance for loan losses to individual classified credits on the basis of specific circumstances and assessments. The loss migration component is calculated as a function of the historical loss migration experience of the internal loan credit risk rating categories. The general component is an unallocated portion that supplements the first two components and includes: Management's judgment of the effect of current and forecasted economic conditions on the borrowers' abilities to repay, an evaluation of the allowance for loan losses in relation to the size of the overall loan portfolio, an evaluation of the composition of, and growth trends within, the loan portfolio, consideration of the relationship of the allowance for loan losses to nonperforming loans, net charge-off trends, and other factors. While this evaluation process utilizes historical and other objective information, the classification of loans and the establishment of the allowance for loan losses, relies, to a great extent, on the judgment and experience of Management.

An analysis of the allowance for loan losses for the past five years is as follows:

	DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS)				
Balance at January 1,.....	\$ 32,700	\$ 29,700	\$ 20,000	\$ 25,000	\$ 22,000
Charge-offs:					
Commercial.....	(9,236)	(9,056)	(4,248)	(10,913)	(5,058)
Real estate.....	--	(634)	(653)	(495)	(5,967)
Consumer and other.....	--	(38)	(57)	--	--
Total charge-offs.....	(9,236)	(9,728)	(4,958)	(11,408)	(11,025)
Recoveries:					
Commercial.....	3,170	2,050	3,106	2,398	3,064
Real estate.....	986	217	2,815	923	1,259
Consumer and other.....	13	35	--	--	--
Total recoveries.....	4,169	2,302	5,921	3,321	4,323
Net (charge-offs) recoveries.....	(5,067)	(7,426)	963	(8,087)	(6,702)
Provision for loan losses.....	10,067	10,426	8,737	3,087	9,702
Balance at December 31,.....	\$ 37,700	\$ 32,700	\$ 29,700	\$ 20,000	\$ 25,000
Net charge-offs (recoveries) to average total loans.....	0.5%	1.0%	(0.1)%	1.4%	1.2%

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

	DECEMBER 31,						
	1997		1996		1995		1994
	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT
	(DOLLARS IN THOUSANDS)						
Commercial.....	\$ 30,394	89.5%	\$ 18,716	87.5%	\$ 16,176	84.3%	\$ 12,748
Real estate term.....	426	2.8	873	5.2	707	7.7	765
Real estate construction.....	274	4.6	140	3.2	87	2.4	345
Consumer and other.....	386	3.1	615	4.1	339	5.6	312
Unallocated.....	6,220	N/A	12,356	N/A	12,391	N/A	5,830
Total.....	\$ 37,700	100.0%	\$ 32,700	100.0%	\$ 29,700	100.0%	\$ 20,000

	1993		
	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS
Commercial.....	87.2%	\$ 19,374	83.5%
Real estate term.....	8.4	539	8.8
Real estate construction.....	1.4	204	3.0
Consumer and other.....	3.0	274	4.7
Unallocated.....	N/A	4,609	N/A
Total.....	100.0%	\$ 25,000	100.0%

The allowance for loan losses totaled \$37.7 million at December 31, 1997, an increase of \$5.0 million, or 15.3%, compared to the \$32.7 million total at December 31, 1996. This increase was due to \$10.1 million in additional provisions to the allowance for loan losses, offset by net charge-offs of \$5.1 million during 1997. The unallocated component of the allowance for loan losses as of December 31, 1997 decreased \$6.1 million, or 49.7%, from the prior year end. This decrease was mostly explained by an increase in specific allocations of the allowance for loan losses totaling \$10.7 million which primarily related to two largely unsecured commercial credits aggregating \$14.1 million that were placed on nonaccrual status during 1997. Gross charge-offs for 1997 were \$9.2 million and included charge-offs totaling \$6.5 million related to two commercial credits, one in the Bank's technology and life sciences niche and the other in one of the Bank's special industry niches. Gross recoveries of \$4.2 million in 1997 included \$1.1 million related to a commercial credit in one of the Bank's special industry niches that was partially charged off in 1996.

Gross charge-offs for 1996 were \$9.7 million, and primarily resulted from five credits, none of which were related to the Bank's technology and life sciences niche. Gross recoveries of \$2.3 million in 1996 included \$0.9 million related to one commercial credit that was partially charged off in 1994. Net loan recoveries in 1995 of \$1.0 million included \$2.7 million in recoveries from a real estate client relationship that had been charged off in 1992 and \$1.1 million in recoveries related to a commercial credit that was partially charged off in 1994. Net loan charge-offs of \$8.1 million in 1994 included the partial charge-off of loans to two commercial borrowers totaling \$5.5 million. Net loan charge-offs in 1993 included \$6.0 million in gross charge-offs related to real estate credits.

In general, Management believes the allowance for loan losses is adequate as of December 31, 1997. However, future changes in circumstances, economic conditions or other factors could cause Management to increase or decrease the allowance for loan losses as deemed necessary.

Nonperforming assets consist of loans that are past due 90 days or more which are still accruing interest, loans on nonaccrual status and OREO and other foreclosed assets. The table below sets forth certain relationships between nonperforming loans, nonperforming assets and the allowance for loan losses. There was no difference during 1997, 1996 and 1995 between the Company's nonaccrual loans and impaired loans. Loans placed on nonaccrual status were measured by the Company for impairment based on the fair value of the underlying collateral in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

	DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS)				
Nonperforming assets:					
Loans past due 90 days or more.....	\$ 1,016	\$ 8,556	\$ 906	\$ 444	\$ 2,014
Nonaccrual loans (1).....	24,476	14,581	27,867	11,269	43,001
Total nonperforming loans.....	25,492	23,137	28,773	11,713	45,015
OREO and other foreclosed assets (1).....	1,858	1,948	4,955	7,089	14,261
Total nonperforming assets.....	\$ 27,350	\$ 25,085	\$ 33,728	\$ 18,802	\$ 59,276
Nonperforming loans as a percent of total loans.....	2.2%	2.7%	3.9%	1.7%	8.0%
OREO and other foreclosed assets as a percent of total assets.....	0.1%	0.1%	0.4%	0.6%	1.4%
Nonperforming assets as a percent of total assets.....	1.0%	1.3%	2.4%	1.6%	6.0%
Allowance for loan losses.....	\$ 37,700	\$ 32,700	\$ 29,700	\$ 20,000	\$ 25,000
As a percent of total loans.....	3.2%	3.8%	4.0%	2.8%	4.4%
As a percent of nonaccrual loans.....	154.0%	224.3%	106.6%	177.5%	58.1%
As a percent of nonperforming loans.....	147.9%	141.3%	103.2%	170.8%	55.5%

(1) In accordance with SFAS No. 114, in-substance foreclosure loans have been reclassified from OREO to nonaccrual loans. The reclassified amounts are \$1,377 and \$13,824 at December 31, 1994 and 1993, respectively.

The detailed composition of nonaccrual loans is presented in the following table. There were no real estate construction loans on nonaccrual status at December 31, 1997 and 1996.

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN THOUSANDS)	
Commercial.....	\$ 24,127	\$ 11,595
Real estate term.....	--	2,546
Consumer and other.....	349	440
Total nonaccrual loans.....	\$ 24,476	\$ 14,581

Nonperforming loans totaled \$25.5 million at December 31, 1997, an increase of \$2.4 million, or 10.2%, from the \$23.1 million total at December 31, 1996, as a \$9.9 million net increase in nonaccrual loans during 1997 was largely offset by the payoff during the first quarter of 1997 of one credit in excess of \$8.0 million that was more than 90 days past due, and still accruing interest, as of December 31, 1996. The increase in nonaccrual loans at December 31, 1997, from the prior year end, was largely due to two commercial credits totaling approximately \$14.1 million which were placed on nonaccrual status during the last half of 1997. Management believes each of these two credits, based on currently known information, is adequately covered with specific reserves and collateral.

Nonperforming loans at December 31, 1996 included the aforementioned credit in excess of \$8.0 million that was more than 90 days past due, and still accruing interest, as of December 31, 1996. The Export-Import Bank of the U.S. (EX-IM) provided the Bank with a guarantee of this credit facility, and the Bank received the guarantee payment related to this credit from the EX-IM in the first quarter of 1997. The \$17.1 million increase in nonperforming loans at December 31, 1995, compared to year-end 1994, was concentrated in two commercial credits, both of which were paid off during 1996 and 1997. The significant improvement in nonperforming loans during 1994, compared to the level at the end of 1993, reflected the concerted efforts of Management to improve the Company's credit discipline and processes and to strengthen its Credit Administration Group staffing.

In addition to the loans disclosed in the foregoing analysis, Management has identified six loans with principal amounts aggregating approximately \$13.7 million, that, on the basis of information known by Management, were judged to have a higher than normal risk of becoming nonperforming. The Company is not aware of any other loans where known information about possible problems of the borrower casts serious doubts about the ability of the borrower to comply with the loan repayment terms.

OREO and other foreclosed assets totaled a combined \$1.9 million at both December 31, 1997 and 1996. The OREO and other foreclosed assets balance at December 31, 1997 consisted of two OREO properties and one other asset which was acquired through foreclosure. The OREO properties each consist of multiple undeveloped lots and were acquired by the Company prior to June 1993. The OREO balance, which totaled \$0.7 million at the end of 1997, decreased \$1.3 million during 1997 due to the sales of lots related to one of the aforementioned properties. The one other asset acquired through foreclosure, which totaled \$1.2 million at December 31, 1997, consists of a favorable leasehold right under a master lease which the Company acquired upon foreclosure of a loan during the third quarter of 1997.

DEPOSITS

The Company's deposits are largely obtained from companies within the technology and life sciences niche, and, to a lesser extent, from businesses within the Company's special industry niches and from individuals served by the Company's Executive Banking Division. The Company does not obtain deposits from conventional retail sources and does not accept brokered deposits. The following table presents the composition of the Company's deposits for the last five years:

	DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS)				
Noninterest-bearing demand.....	\$ 788,442	\$ 599,257	\$ 451,318	\$ 401,455	\$ 356,806
NOW.....	21,348	8,443	10,956	11,636	14,271
Regular money market.....	351,921	326,661	288,619	328,115	422,787
Bonus money market.....	1,146,075	754,730	473,717	245,420	49,642
Time.....	124,621	85,213	65,450	88,747	71,453
Total deposits.....	\$ 2,432,407	\$ 1,774,304	\$ 1,290,060	\$ 1,075,373	\$ 914,959

Total deposits were \$2.4 billion at December 31, 1997, an increase of \$658.1 million, or 37.1%, from the prior year-end total of \$1.8 billion. A significant portion of the increase in deposits during 1997 was concentrated in the Company's highest-rate paying deposit product, its bonus money market deposit product, which increased \$391.3 million, or 51.9%, and in the Company's noninterest-bearing demand deposits, which increased \$189.2 million, or 31.6%, from the prior year end. Increased balances during 1997 in all of the Company's deposit products were explained by high levels of client liquidity attributable to a strong inflow of investment capital into the venture capital community, and by growth during 1997 in the number of clients served by the Company.

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$110.4 million and \$75.0 million at December 31, 1997 and 1996, respectively. At December 31, 1997, all time deposit accounts exceeding \$100,000 were scheduled to mature within one year. No material portion of the Company's deposits has been obtained from a single depositor and the loss of any one depositor would not materially affect the business of the Company.

INTEREST RATE RISK MANAGEMENT

A key objective of asset/liability management is to manage interest rate risk associated with changing asset and liability cash flows and market interest rate movements. Interest rate risk occurs when interest rate sensitive assets and liabilities do not reprice simultaneously and in equal volumes. The asset/liability committee of the Bank (ALCO) provides oversight to the Company's interest rate risk management process and recommends policy guidelines regarding exposure to interest rates for approval by the Board of Directors. Adherence to these policies is monitored on an ongoing basis, and decisions related to the management of interest rate exposure are made when appropriate and agreed to by the ALCO.

The Company manages interest rate risk principally through strategies involving its investment securities portfolio, including adjusting both the maturity structure of the portfolio and the amount of interest rate sensitive securities. Company policies also permit the limited use of off-balance sheet derivative instruments in managing interest rate risk, however, as of December 31, 1997, no such derivative instruments have been utilized by the Company in connection with its interest rate risk management process.

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

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated to reprice within a specific time period and the amount of funding sources anticipated to reprice within that same time period. A gap is considered positive when the amount of interest rate sensitive assets repricing within a specific time period exceeds the amount of funding sources repricing within that same time period. Positive cumulative gaps in early time periods suggest that earnings will increase when interest rates rise. Negative cumulative gaps suggest that earnings will increase when interest rates fall. Company policy guidelines provide that the cumulative one-year gap as a percentage of interest-earning assets should not exceed 20.0%. The gap analysis as of December 31, 1997 indicates that the Company was positioned within these guidelines as the cumulative one-year gap as a percentage of interest-earning assets was 7.4%. The following table illustrates the Company's interest rate sensitivity gap positions at December 31, 1997.

**INTEREST RATE SENSITIVITY ANALYSIS AS OF
DECEMBER 31, 1997**

ASSETS AND LIABILITIES WHICH MATURE OR REPRICE							
IMMEDIATELY	1 DAY TO 1 MONTH	AFTER 1 MONTH TO 3 MONTHS	AFTER 3 MONTHS TO 6 MONTHS	AFTER 6 MONTHS TO 1 YEAR	AFTER 1 YEAR TO 5 YEARS	AFTER 5 YEARS	NOT STATED
(DOLLARS IN THOUSANDS)							
INTEREST-EARNING ASSETS:							
Federal funds sold and securities purchased under agreement to resell (1).....	--	\$ 321,773	--	--	--	--	--
Investment securities:							
U.S. Treasury and agencies obligations.....	--	31,773	\$ 147,428	\$ 89,549	\$ 47,219	\$ 364,121	--
Collateralized mortgage obligations and mortgage-backed securities (2).....	--	16,855	13,764	17,055	46,645	89,351	\$ 1,818
Obligations of states and political subdivisions.....	--	14	28	17,200	26,004	8,602	8,588
Commercial paper and other debt securities.....	--	28,346	42,630	--	--	--	12,000
Other equity securities (3).....	--	--	--	--	--	--	\$ 4,914
Total investment securities.....	--	76,988	203,850	123,804	119,868	462,074	22,406
Loans (4), (5).....	\$ 907,316	5,307	9,271	39,250	21,671	157,370	14,539
Total Interest-Earning Assets.....	\$ 907,316	\$ 404,068	\$ 213,121	\$ 163,054	\$ 141,539	\$ 619,444	\$ 36,945
FUNDING SOURCES:							
Money market and NOW deposits.....	--	\$1,519,344	--	--	--	--	--
Time deposits.....	--	70,997	\$ 30,453	\$ 14,251	\$ 8,719	\$ 168	\$ 33
Total interest-bearing deposits.....	--	1,590,341	30,453	14,251	8,719	168	33
Portion of noninterest-bearing funding sources.....	--	--	--	--	--	--	\$ 866,357
Total Funding Sources...	--	\$1,590,341	\$ 30,453	\$ 14,251	\$ 8,719	\$ 168	\$ 33
GAP.....	\$ 907,316	\$(1,186,273)	\$ 182,668	\$ 148,803	\$ 132,820	\$ 619,276	\$ 36,912
CUMULATIVE GAP.....	\$ 907,316	\$(278,957)	\$ (96,289)	\$ 52,514	\$ 185,334	\$ 804,610	\$ 841,522

TOTAL

INTEREST-EARNING ASSETS:	
Federal funds sold and securities purchased under agreement to resell (1).....	\$ 321,773
Investment securities:	
U.S. Treasury and agencies obligations.....	680,090
Collateralized mortgage obligations and mortgage-backed securities (2).....	185,488
Obligations of states and political subdivisions.....	60,436
Commercial paper and other debt securities.....	82,976
Other equity securities (3).....	4,914
Total investment securities.....	1,013,904

Loans (4), (5).....	1,174,645
Total Interest-Earning Assets.....	\$2,510,322
FUNDING SOURCES:	
Money market and NOW deposits.....	\$1,519,344
Time deposits.....	124,621
Total interest-bearing deposits.....	1,643,965
Portion of noninterest- bearing funding sources.....	866,357
Total Funding Sources...	\$2,510,322
GAP.....	--
CUMULATIVE GAP.....	--

(1) Includes interest-bearing deposits in other financial institutions of \$273 as of December 31, 1997.

(2) Principal cash flows are based on estimated principal payments as of December 31, 1997.

(3) Not stated column consists of equity securities and Federal Reserve Bank stock as of December 31, 1997.

(4) Not stated column consists of nonaccrual loans of \$24,476 and overdrafts of \$3,454, offset by unearned income of \$8,009 as of December 31, 1997.

(5) Maturity/repricing columns for fixed rate loans are based upon the amount and timing of related principal payments as of December 31, 1997.

One application of the aforementioned simulation model involves measurement of the impact of market interest rate changes on the net present value of estimated cash flows from the Company's assets, liabilities and off-balance sheet items, defined as the Company's market value of portfolio equity (MVPE). This analysis assesses the changes in market values of interest rate sensitive financial instruments which would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, and the resulting effect on the Company's MVPE. Policy guidelines establish maximum variances in the Company's MVPE of 20.0% and 30.0% in the event of an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, respectively. At December 31, 1997, the Company's MVPE exposure related to the aforementioned changes in market interest rates was within policy guidelines.

The following table presents the Company's MVPE exposure at December 31, 1997 and December 31, 1996 related to an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, respectively.

CHANGE IN INTEREST RATES (BASIS POINTS) -----	(DOLLARS IN THOUSANDS)	ESTIMATED MVPE -----	ESTIMATED INCREASE/ (DECREASE) IN MVPE -----	
			AMOUNT -----	PERCENT -----
December 31, 1997:				
+200	\$	173,905	\$ (21,298)	(10.9)%
+100		184,625	(10,578)	(5.4)
--		195,203	--	--
(100)		206,513	11,310	5.8
(200)		217,811	22,608	11.6
December 31, 1996:				
+200	\$	136,370	\$ (16,218)	(10.6)%
+100		144,184	(8,404)	(5.5)
--		152,588	--	--
(100)		161,636	9,048	5.9
(200)		171,243	18,655	12.2

The preceding table indicates that in the event of an instantaneous and sustained increase in market interest rates, the Company's MVPE would be expected to decrease, and that in the event of an instantaneous and sustained decrease in market interest rates, the Company's MVPE would be expected to increase.

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

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the preceding table. For example, although certain of the Company's assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain of the Company's asset and liability categories may precede, or lag behind, changes in market interest rates. Also, the actual rates of prepayments on loans and investments could vary significantly from the assumptions utilized in deriving the results as presented in the preceding table. Further, a change in U.S. Treasury rates accompanied by a change in the shape of the treasury yield curve could result in different MVPE estimations from those presented herein. Accordingly, the results in the preceding table should not be relied upon as indicative of

actual results in the event of changing market interest rates. Additionally, the resulting MVPE estimates are not intended to represent, and should not be construed to represent, the underlying value of the Company.

The simulation model also provides the ALCO with the ability to simulate the Company's net interest income using either one interest rate forecast (simple simulation) or a forecast of multiple interest rate scenarios (stochastic simulation). In order to measure, as of December 31, 1997, the sensitivity of the Company's forecasted net interest income to changing interest rates, utilizing the simple simulation methodology, both a rising and falling interest rate scenario were projected and compared to a base market interest rate forecast derived from the treasury yield curve. For the rising and falling interest rate scenarios, the base market interest rate forecast was increased or decreased, as applicable, by 200 basis points in 12 equal increments over a one-year period. Company policy guidelines provide that the difference between a base market interest rate forecast scenario over the succeeding one-year period compared with the aforementioned rising and falling interest rate scenarios over the same time period should not result in net interest income sensitivity exceeding 20.0%. Simulations as of December 31, 1997 indicated the Company was well within these policy guidelines.

Interest rate risk is the most significant market risk impacting the Company. Other types of market risk affecting the Company in the normal course of its business activities include foreign currency exchange risk and equity price risk. The impact on the Company, resulting from these latter two market risks, is deemed immaterial and no separate quantitative information concerning market rate and price exposure is presented herein. The Company does not maintain a portfolio of trading securities and does not intend to engage in such activities in the immediate future.

LIQUIDITY

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

The Company regularly assesses 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 Company business activities. The ALCO provides oversight to the liquidity management process and recommends policy guidelines, subject to Board of Directors approval, and courses of action to address the Company's actual and projected liquidity needs.

The ability to attract a stable, low-cost base of deposits is the Company's primary source of liquidity. Other sources of liquidity available to the Company include short-term borrowings, which consist of federal funds purchased, security repurchase agreements and other short-term borrowing arrangements. The Company's liquidity requirements can also be met through the use of its portfolio of liquid assets. Liquid assets, as defined by the Company, include cash and cash equivalents in excess of the minimum levels necessary to carry out normal business operations, federal funds sold, securities purchased under resale agreements, investment securities maturing within six months, investment securities eligible and available for pledging purposes with a maturity in excess of six months, and anticipated near term cash flows from investments.

Bank policy guidelines provide that liquid assets as a percentage of total deposits should not fall below 20.0%. At December 31, 1997, the Bank's ratio of liquid assets to total deposits was 52.1%. This ratio is well in excess of the Bank's minimum policy guidelines and is slightly higher than the comparable ratio of 47.3% as of December 31, 1996. In addition to monitoring the level of liquid assets relative to total deposits, the Bank also utilizes other policy measures in its liquidity management activities. As of December 31, 1997 and 1996, the Bank was in compliance with all of these policy measures.

In analyzing the Company's liquidity during 1997, reference is made to the Company's consolidated statement of cash flows for the year ended December 31, 1997 (see "Item 8. Financial Statements and Supplementary Data"). The statement of cash flows includes separate categories for operating, investing and financing activities. Operating activities included net income of \$27.7 million for 1997, which was adjusted for certain non-cash items including the provision for loan losses, depreciation, deferred income taxes, and an assortment of other miscellaneous items. Investing activities consisted primarily of both proceeds from and purchases of investment securities, which resulted in a net cash outflow of \$382.5 million, and the net change in total loans resulting from loan originations and principal collections, which resulted in a net cash outflow of \$323.9 million in 1997. Financing activities reflected the net change in the Company's total deposits, which increased \$658.1 million during 1997, and included \$4.8 million of cash proceeds received during the year from the issuance of Company common stock. In total, the transactions noted above resulted in a net cash outflow of \$6.3 million for 1997 and total cash and cash equivalents, as defined in the Company's consolidated statement of cash flows, of \$426.8 million at December 31, 1997.

CAPITAL RESOURCES

Management seeks to maintain adequate capital to support anticipated asset growth and credit risks, and to ensure that the Company and the Bank are in compliance with all regulatory capital guidelines. The primary source of new capital for the Company has been the retention of earnings. Aside from current earnings, an additional source of new capital for the Company has been the issuance of common stock under the Company's employee benefit plans, including the Company's stock option plans, defined contribution plans and employee stock purchase plan.

Shareholders' equity was \$174.5 million at December 31, 1997, an increase of \$39.1 million, or 28.9%, from the \$135.4 million balance at December 31, 1996. This increase was due to both 1997 net income of \$27.7 million and \$11.4 million in net capital generated during 1997 primarily through the Company's employee benefit plans. The Company has not paid a cash dividend on its common stock since 1992, and does not have any material commitments for capital expenditures as of December 31, 1997.

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

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
Return on average assets.....	1.3%	1.4%	1.6%
DIVIDED BY			
Average equity as a percentage of average assets.....	7.1%	7.6%	7.9%
EQUALS			
Return on average equity.....	18.2%	17.9%	19.8%
TIMES			
Earnings retained.....	100.0%	100.0%	100.0%
EQUALS			
Internal capital growth.....	18.2%	17.9%	19.8%

The Company and the Bank are subject to capital adequacy guidelines issued by the Federal Reserve Board. Under these capital guidelines, the minimum total risk-based capital ratio and Tier 1 risk-based capital ratio requirements are 10.0% and 6.0%, respectively, of risk-weighted assets and certain off-balance sheet items for a well capitalized depository institution.

The Federal Reserve Board has also established minimum capital leverage ratio guidelines for state member banks. The ratio is determined using Tier 1 capital divided by quarterly average total assets. The guidelines require a minimum of 5.0% for a well capitalized depository institution.

The Company's and the Bank's capital ratios were in excess of regulatory guidelines for a well capitalized depository institution as of December 31, 1997, 1996 and 1995. Capital ratios for the Company are set forth below:

	DECEMBER 31,		
	1997	1996	1995
Total risk-based capital ratio.....	11.5%	11.5%	11.9%
Tier 1 risk-based capital ratio.....	10.2%	10.2%	10.6%
Tier 1 leverage ratio.....	7.1%	7.7%	8.0%

The Company's total risk-based capital ratio and Tier 1 risk-based capital ratio at the end of 1997 were unchanged from the prior year end, as growth in Tier 1 capital was offset by an increase in total assets. This increase in total assets was largely in lower risk-weighted categories and resulted from the Company's strong deposit growth exceeding its loan growth during 1997. The decrease in the Company's Tier 1 leverage ratio from December 31, 1996 to December 31, 1997 was primarily attributable to an increase in average total assets due to the aforementioned strong growth in deposits during 1997. The decrease in the Company's capital ratios from December 31, 1995 to December 31, 1996 primarily resulted from a significant increase in total assets during 1996 which was attributable to strong deposit growth. See "Item 8. Financial Statements and Supplementary Data--Note 15 to the Consolidated Financial Statements--Regulatory Matters" for the Bank's capital ratios at December 31, 1997 and 1996.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

[LOGO]

The Board of Directors and Shareholders

Silicon Valley Bancshares:

We have audited the accompanying consolidated balance sheets of Silicon Valley Bancshares and subsidiaries (the Company) as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silicon Valley Bancshares and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

*/s/ KPMG Peat Marwick LLP San Jose,
California*

January 15, 1998

**SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and due from banks.....	\$ 105,059	\$ 122,836
Federal funds sold and securities purchased under agreement to resell.....	321,773	310,341
Investment securities, at fair value.....	1,013,904	625,022
Loans, net of unearned income.....	1,174,645	863,492
Allowance for loan losses.....	(37,700)	(32,700)
Net loans.....	1,136,945	830,792
Premises and equipment.....	4,460	4,155
Other real estate owned.....	689	1,948
Accrued interest receivable and other assets.....	42,293	29,450
Total assets.....	\$ 2,625,123	\$ 1,924,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand.....	\$ 788,442	\$ 599,257
NOW.....	21,348	8,443
Money market.....	1,497,996	1,081,391
Time.....	124,621	85,213
Total deposits.....	2,432,407	1,774,304
Other liabilities.....	18,235	14,840
Total liabilities.....	2,450,642	1,789,144
Shareholders' Equity:		
Preferred stock, no par value:		
20,000,000 shares authorized; none outstanding		
Common stock, no par value:		
30,000,000 shares authorized; 9,970,237 and 9,329,993 shares outstanding at December 31, 1997 and 1996, respectively.....		
Retained earnings.....	83,009	65,968
Net unrealized gain on available-for-sale investments.....	94,999	67,321
Unearned compensation.....	2,419	2,456
	(5,946)	(345)
Total shareholders' equity.....	174,481	135,400
Total liabilities and shareholders' equity.....	\$ 2,625,123	\$ 1,924,544

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Interest income:			
Loans.....	\$ 106,840	\$ 87,893	\$ 79,767
Investment securities.....	41,868	24,074	10,439
Federal funds sold and securities purchased under agreement to resell.....	17,264	13,106	11,041
Total interest income.....	165,972	125,073	101,247
Interest expense:			
Deposits.....	55,148	37,796	27,293
Other borrowings.....	--	2	2
Total interest expense.....	55,148	37,798	27,295
Net interest income.....	110,824	87,275	73,952
Provision for loan losses.....	10,067	10,426	8,737
Net interest income after provision for loan losses.....	100,757	76,849	65,215
Noninterest income:			
Disposition of client warrants.....	5,480	5,389	8,205
Letter of credit and foreign exchange income.....	4,512	3,423	3,007
Deposit service charges.....	1,772	1,663	1,402
Investment gains (losses).....	90	1	(768)
Other.....	1,411	1,133	719
Total noninterest income.....	13,265	11,609	12,565
Noninterest expense:			
Compensation and benefits.....	40,084	31,417	27,161
Professional services.....	6,710	4,987	5,160
Business development and travel.....	4,514	2,918	1,982
Furniture and equipment.....	3,620	3,239	3,235
Net occupancy expense.....	3,410	3,095	3,616
Postage and supplies.....	1,600	1,448	1,191
Advertising and promotion.....	1,448	1,183	613
Telephone.....	1,444	1,277	1,006
Cost of other real estate owned.....	76	398	(12)
Other.....	3,395	2,720	3,973
Total noninterest expense.....	66,301	52,682	47,925
Income before income tax expense.....	47,721	35,776	29,855
Income tax expense.....	20,043	14,310	11,702
Net income.....	\$ 27,678	\$ 21,466	\$ 18,153
Basic earnings per share.....	\$ 2.86	\$ 2.33	\$ 2.08
Diluted earnings per share.....	\$ 2.72	\$ 2.21	\$ 1.98

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	COMMON STOCK		RETAINED EARNINGS	UNREALIZED GAIN (LOSS) ON INVESTMENTS	UNEARNED COMPENSATION	TOTAL
	SHARES	AMOUNT				
				(DOLLARS IN THOUSANDS)		
Balance at December 31, 1994.....	8,509,194	\$ 54,068	\$ 27,702	\$ (4,159)	\$ (354)	\$ 77,257
Common stock issued under employee benefit plans.....	454,468	5,289	--	--	--	5,289
Net income.....	--	--	18,153	--	--	18,153
Net change in unrealized gain (loss) on available-for-sale investments.....	--	--	--	3,961	--	3,961
Amortization of unearned compensation.....	--	--	--	--	314	314
Balance at December 31, 1995.....	8,963,662	59,357	45,855	(198)	(40)	104,974
Common stock issued under employee benefit plans.....	366,331	5,776	--	--	(410)	5,366
Income tax benefit from stock options exercised and vesting of restricted stock.....	--	835	--	--	--	835
Net income.....	--	--	21,466	--	--	21,466
Net change in unrealized gain (loss) on available-for-sale investments.....	--	--	--	2,654	--	2,654
Amortization of unearned compensation.....	--	--	--	--	105	105
Balance at December 31, 1996.....	9,329,993	65,968	67,321	2,456	(345)	135,400
Common stock issued under employee benefit plans.....	640,244	12,891	--	--	(6,416)	6,475
Income tax benefit from stock options exercised and vesting of restricted stock.....	--	4,150	--	--	--	4,150
Net income.....	--	--	27,678	--	--	27,678
Net change in unrealized gain (loss) on available-for-sale investments.....	--	--	--	(37)	--	(37)
Amortization of unearned compensation.....	--	--	--	--	815	815
Balance at December 31, 1997.....	9,970,237	\$ 83,009	\$ 94,999	\$ 2,419	\$ (5,946)	\$ 174,481

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
Cash flows from operating activities:			
Net income.....	\$ 27,678	\$ 21,466	\$ 18,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses.....	10,067	10,426	8,737
Provision for other real estate owned.....	--	550	--
Depreciation and amortization.....	1,334	1,183	1,944
Net (gain) loss on sales of investment securities.....	(90)	(1)	768
Net (gain) loss on disposals of premises and equipment.....	(4)	--	1,117
Net gain on sales of other real estate owned.....	(45)	(416)	(271)
Deferred income tax benefit.....	(1,358)	(2,834)	(3,864)
Increase in unearned income.....	2,351	1,845	159
Increase in accrued interest receivable.....	(7,519)	(3,586)	(102)
Other, net.....	969	(576)	1,638
Net cash provided by operating activities.....	33,383	28,057	28,279
Cash flows from investing activities:			
Proceeds from maturities and paydowns of investment securities.....	1,149,471	1,000,558	201,291
Proceeds from sales of investment securities.....	139,451	21,277	33,463
Purchases of investment securities.....	(1,671,449)	(1,313,637)	(390,770)
Net increase in loans.....	(323,909)	(136,660)	(40,121)
Proceeds from recoveries of charged off loans.....	4,169	2,302	5,921
Net proceeds from sales of other real estate owned.....	1,304	2,873	2,837
Purchases of premises and equipment.....	(1,691)	(641)	(5,561)
Net cash applied to investing activities.....	(702,654)	(423,928)	(192,940)
Cash flows from financing activities:			
Net increase in deposits.....	658,103	484,244	214,687
Proceeds from issuance of common stock, net of issuance costs.....	4,823	2,479	2,450
Net cash provided by financing activities.....	662,926	486,723	217,137
Net increase (decrease) in cash and cash equivalents.....	(6,345)	90,852	52,476
Cash and cash equivalents at January 1,.....	433,177	342,325	289,849
Cash and cash equivalents at December 31,.....	\$ 426,832	\$ 433,177	\$ 342,325
Supplemental disclosures:			
Interest paid.....	\$ 54,891	\$ 37,737	\$ 27,239
Income taxes paid.....	\$ 19,772	\$ 16,775	\$ 14,677
Non-cash investing activities:			
Transfer of loans to other real estate owned and other foreclosed assets.....	\$ 1,169	\$ --	\$ 408
Transfer of investment securities from held-to-maturity to available-for-sale.....	\$ --	\$ --	\$ 6,196

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiaries conform with generally accepted accounting principles and prevailing practices within the banking industry. Certain reclassifications have been made to the Company's 1996 and 1995 consolidated financial statements to conform to the 1997 presentations. Such reclassifications had no effect on the results of operations or shareholders' equity. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

NATURE OF OPERATIONS

The Company is a bank holding company whose principal subsidiary is Silicon Valley Bank, a California-chartered bank with headquarters in Santa Clara, California. The Bank maintains regional banking offices in California, and additionally has loan offices in Arizona, Colorado, Georgia, Illinois, Maryland, Massachusetts, Oregon, Texas, and Washington. The Bank serves emerging growth and middle-market companies in specific targeted niches, focusing on the technology and life sciences industries, while also identifying and capitalizing on opportunities to serve companies in other industries whose financial services needs are underserved. Substantially all of the assets, liabilities and earnings of the Company relate to its investment in the Bank.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, the Bank and SVB Leasing Company (inactive). The revenues, expenses, assets, and liabilities of the subsidiaries are included in the respective line items in the consolidated financial statements after elimination of intercompany accounts and transactions.

BASIS OF FINANCIAL STATEMENT PRESENTATION

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as reported in the consolidated statements of cash flows includes cash on hand, cash balances due from banks, federal funds sold, and securities purchased under agreement to resell. The cash equivalents are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value.

FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Federal funds sold and securities purchased under agreement to resell as reported in the consolidated balance sheets includes interest-bearing deposits in other financial institutions of \$273,000 and \$341,000 at December 31, 1997 and 1996, respectively.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INVESTMENT SECURITIES

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," investment securities are classified as either "available-for-sale," "held-to-maturity" or "trading" upon acquisition.

Securities that are held to meet investment objectives such as interest rate risk and liquidity management, but which may be sold by the Company as needed to implement Management strategies, are classified as available-for-sale and are accounted for at fair value. Unrealized gains and losses on available-for-sale securities, after applicable taxes, are excluded from earnings and are reported as a separate component of shareholders' equity until realized.

Securities acquired with the ability and positive intent to hold to maturity are classified as held-to-maturity and are accounted for at historical cost, adjusted for the amortization of premiums or the accretion of discounts to maturity, where appropriate. Unrealized losses on held-to-maturity securities are realized and charged against earnings when it is determined that an other than temporary decline in value has occurred.

Securities acquired and held principally for the purpose of sale in the near term are classified as trading and are accounted for at fair value. Unrealized gains and losses resulting from fair value adjustments on trading securities, as well as gains and losses realized upon the sale of investment securities, are included in noninterest income.

The amortization of premiums and the accretion of discounts are included in interest income over the contractual terms of the underlying investment securities using the interest method or the straight-line method, if not materially different. Gains and losses realized upon the sale of investment securities are computed on the specific identification method.

LOANS

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

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision charged to expense. It is the Company's policy to charge off loans which, in the judgment of Management, are deemed to have a substantial risk of loss.

The allowance for loan losses is maintained at a level deemed adequate by the Company, based upon various estimates and judgments, to provide for known and inherent risks in the loan portfolio, including loan commitments. The evaluation of the adequacy of the allowance for loan losses is based upon a continuous review of a number of factors, including historical loss experience, a review of specific loans, loan concentrations, prevailing and anticipated economic conditions that may impact the borrowers' abilities to repay loans as well as the value of underlying collateral, delinquency analysis, and an assessment of credit risk in the loan portfolio established through an ongoing credit review process by the Company and through periodic regulatory examinations.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NONACCRUAL LOANS

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

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

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

PREMISES AND EQUIPMENT

Premises and equipment are reported at cost, less accumulated depreciation and amortization computed using the straight-line method over the estimated useful lives of the assets or the terms of the related leases, whichever is shorter. This time period may range from one to 10 years. The Company had no capitalized lease obligations at December 31, 1997 and 1996.

OTHER REAL ESTATE OWNED

Loans secured by real estate are transferred to OREO at the time of foreclosure. OREO is carried on the Company's balance sheet at the lower of the recorded investment in the loan or the fair value of the property foreclosed upon less estimated costs of disposal. Upon transfer of a loan to OREO, an appraisal is obtained and any excess of the loan balance over the fair value of the property less estimated costs of disposal is charged against the allowance for loan losses. Revenues and expenses associated with OREO, and subsequent adjustments to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred.

FOREIGN EXCHANGE FORWARD CONTRACTS

The Company enters into foreign exchange forward contracts with customers involved in international trade finance activities, and enters into offsetting foreign exchange forward contracts with correspondent banks to hedge against the risk of fluctuations in foreign currency exchange rates related to the forward contracts entered into with its customers. The notional, or contract, amounts associated with these financial instruments are not recorded as assets or liabilities in the Company's consolidated balance sheets. Fees on these foreign exchange forward contracts are included in noninterest income when the contracts are settled. Cash flows resulting from these financial instruments are classified in the same category as the

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

cash flows resulting from the items being hedged. The Company is an end-user of these derivative financial instruments and does not conduct trading activities for such instruments.

INCOME TAXES

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

STOCK-BASED COMPENSATION

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes financial accounting and reporting standards for stock-based compensation plans, including employee stock purchase plans, stock options and restricted stock. SFAS No. 123 encourages all entities to adopt a fair value method of accounting for stock-based compensation plans, whereby compensation cost is measured at the grant date based on the fair value of the award and is realized as an expense over the service or vesting period. However, SFAS No. 123 also allows an entity to continue to measure compensation cost for these plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," which is the method currently being used by the Company. Under the intrinsic value method, compensation cost is generally the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount which must be paid to acquire the stock.

The Company adopted SFAS No. 123 effective January 1, 1996, but continues to account for employee and director stock-based compensation plans under the intrinsic value accounting methodology prescribed by APB Opinion No. 25. SFAS No. 123 requires that stock-based compensation to parties other than employees and directors be accounted for under the fair value method.

EARNINGS PER SHARE

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share." SFAS No. 128 establishes standards for computing and reporting EPS and applies to entities with publicly held common stock or financial instruments that are potentially convertible into publicly held common stock. This statement supersedes APB Opinion No. 15, "Earnings per Share." The presentation of primary EPS, as required by APB Opinion No. 15, is replaced with a presentation of basic EPS, which is defined in SFAS No. 128. In addition, dual presentation of basic EPS and diluted EPS, as defined in SFAS No. 128, is required on the face of the income statement for all entities that have complex capital structures. Disclosure of a reconciliation between basic EPS and diluted EPS is also required.

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if financial instruments or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed similarly to the fully diluted EPS computation required by APB Opinion No. 15. The Company adopted SFAS No. 128 effective December 31, 1997. See "Note 2

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

to the Consolidated Financial Statements--Earnings Per Share" for the disclosure of the reconciliations between basic EPS and diluted EPS for the years ended December 31, 1997, 1996 and 1995.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for all entities for reporting comprehensive income and its components in financial statements. This statement requires that all items which are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is equal to net income plus the change in "other comprehensive income," as defined by SFAS No. 130. The only component of other comprehensive income currently applicable to the Company is the net unrealized gain or loss on available-for-sale investments. SFAS No. 130 requires that an entity: (a) classify items of other comprehensive income by their nature in a financial statement, and (b) report the accumulated balance of other comprehensive income separately from common stock and retained earnings in the equity section of the balance sheet. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for publicly held entities to follow in reporting information about operating segments in annual financial statements and requires that those entities also report selected information about operating segments in interim financial statements. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for financial statements issued for periods beginning after December 15, 1997.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. EARNINGS PER SHARE

The following is a reconciliation of basic EPS to diluted EPS for the years ended December 31, 1997, 1996 and 1995:

	YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995		
	NET INCOME	SHARES	PER SHARE AMOUNT
	(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
1997:			
Basic EPS:			
Income available to common shareholders.....	\$ 27,678	9,685	\$ 2.86
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	484	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 27,678	10,169	\$ 2.72
1996:			
Basic EPS:			
Income available to common shareholders.....	\$ 21,466	9,213	\$ 2.33
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	478	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 21,466	9,691	\$ 2.21
1995:			
Basic EPS:			
Income available to common shareholders.....	\$ 18,153	8,747	\$ 2.08
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	397	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 18,153	9,144	\$ 1.98

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. RESTRICTIONS ON CASH BALANCES

The Bank is required to maintain reserves against customer deposits by keeping balances with the Federal Reserve Bank of San Francisco in a noninterest-bearing cash account. The minimum required reserve amounts were \$7.2 million and \$46.0 million at December 31, 1997 and 1996, respectively. The decrease in the minimum required reserve amount at the end of 1997, compared to the prior year end, was due to a decrease in the amount of reservable customer deposits. The average required reserve balance totaled \$31.5 million in 1997 and \$33.6 million in 1996.

4. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Securities purchased under agreement to resell outstanding at December 31, 1997 consist of U.S. agencies and corporations discount notes and bonds, bankers' acceptances and commercial paper. The securities underlying the agreement are book-entry securities in the Bank's account at a correspondent bank. Securities purchased under agreement to resell averaged \$130.0 million in 1997, and the maximum amount outstanding at any month-end during 1997 was \$130.0 million.

5. INVESTMENT SECURITIES

All investment securities were classified as available-for-sale at December 31, 1997 and 1996. The Company did not maintain a trading portfolio during 1997 or 1996. The following tables detail the major components of the Company's investment securities portfolio at December 31, 1997 and 1996.

	DECEMBER 31, 1997			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Available-for-sale securities:				
U.S. Treasury securities.....	\$ 216,231	\$ 1,488	\$ (34)	\$ 217,685
U.S. agencies and corporations:				
Discount notes and bonds.....	461,659	889	(143)	462,405
Mortgage-backed securities.....	143,834	666	(63)	144,437
Collateralized mortgage obligations.....	40,974	101	(24)	41,051
Obligations of states and political subdivisions.....	60,108	380	(52)	60,436
Commercial paper.....	41,829	--	--	41,829
Bankers' acceptances.....	16,140	--	--	16,140
Other debt securities.....	24,996	14	(3)	25,007
Other equity securities.....	4,033	881	--	4,914
	\$ 1,009,804	\$ 4,419	\$ (319)	\$ 1,013,904

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	DECEMBER 31, 1996			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Available-for-sale securities:				
U.S. Treasury securities.....	\$ 75,090	\$ 619	\$ (162)	\$ 75,547
U.S. agencies and corporations:				
Discount notes and bonds.....	298,305	909	(726)	298,488
Collateralized mortgage obligations.....	58,386	1	(349)	58,038
Mortgage-backed securities.....	8,469	--	(301)	8,168
Commercial paper.....	143,086	--	--	143,086
Obligations of states and political subdivisions.....	22,528	274	(15)	22,787
Other debt securities.....	13,000	--	--	13,000
Other equity securities.....	1,996	3,912	--	5,908
	\$ 620,860	\$ 5,715	\$ (1,553)	\$ 625,022

The amortized cost and fair value of investment securities classified as available-for-sale at December 31, 1997, categorized by remaining contractual maturity, are shown below. Expected remaining maturities of mortgage-backed securities and collateralized mortgage obligations will generally differ from contractual maturities because borrowers may have the right to prepay obligations with or without penalties. Other equity securities were included in the table below as due after ten years.

	DECEMBER 31, 1997	
	AMORTIZED COST	FAIR VALUE
	(DOLLARS IN THOUSANDS)	
Due in one year or less.....	\$ 428,784	\$ 428,739
Due after one year through five years.....	370,988	373,380
Due after five years through ten years.....	49,187	49,423
Due after ten years.....	160,845	162,362
	\$ 1,009,804	\$ 1,013,904

Investment securities with a fair value of \$21.7 million and \$46.3 million at December 31, 1997 and 1996, respectively, were pledged to secure certain public deposits and a line of credit at the Federal Reserve Bank of San Francisco discount window.

Sales of available-for-sale investment securities resulted in the Company realizing gross gains of \$162,000, \$1,000 and \$6,000, and gross losses of \$72,000, \$200 and \$774,000 in 1997, 1996 and 1995, respectively.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The detailed composition of loans, net of unearned income of \$8.0 million and \$5.7 million at December 31, 1997 and 1996, respectively, is presented in the following table:

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN THOUSANDS)	
Commercial.....	\$ 1,051,218	\$ 755,699
Real estate construction.....	53,583	27,540
Real estate term.....	33,395	44,475
Consumer and other.....	36,449	35,778
Total loans.....	\$ 1,174,645	\$ 863,492

The Company's loan classifications for financial reporting purposes differ from those for regulatory reporting purposes. Loans are classified for financial reporting purposes based upon the purpose and primary source of repayment of the loans. Loans are classified for regulatory reporting purposes based upon the type of collateral securing the loans.

A substantial percentage of the Company's loans are commercial in nature, and such loans are generally made to emerging growth and middle-market companies in a variety of industries. As of December 31, 1997, no particular industry sector (as identified by Standard Industrial Codes) represented more than 10.0% of the Company's loan portfolio.

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

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
Balance at January 1,.....	\$ 32,700	\$ 29,700	\$ 20,000
Provision for loan losses.....	10,067	10,426	8,737
Loans charged off.....	(9,236)	(9,728)	(4,958)
Recoveries.....	4,169	2,302	5,921
Balance at December 31,.....	\$ 37,700	\$ 32,700	\$ 29,700

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled \$24.5 million and \$14.6 million at December 31, 1997 and 1996, respectively. Allocations of the allowance for loan losses related to impaired loans totaled \$15.9 million at December 31, 1997 and \$5.2 million at December 31, 1996. Average impaired loans for 1997 and 1996 totaled \$19.7 million and \$22.9 million, respectively. If these loans had not been impaired, \$1.1 million and \$1.6 million in interest income would have been realized during the years ended December 31, 1997 and 1996, respectively. The Company realized no interest income on such impaired loans during 1997 or 1996.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN THOUSANDS)	
Cost:		
Furniture and equipment.....	\$ 5,549	\$ 4,205
Leasehold improvements.....	3,352	3,066
	8,901	7,271
Total cost.....	(4,441)	(3,116)
Accumulated depreciation and amortization.....		
Premises and equipment--net.....	\$ 4,460	\$ 4,155

The Company is obligated under a number of noncancelable operating leases for premises which expire at various dates through May 2005, and in most instances, include options to renew or extend at market rates and terms. Such leases may provide for periodic adjustments of rentals during the term of the lease based on changes in various economic indicators. The following table presents minimum payments under noncancelable operating leases:

	YEARS ENDING DECEMBER 31,	
	(DOLLARS IN THOUSANDS)	
1998.....	\$ 2,873	
1999.....	3,153	
2000.....	2,996	
2001.....	2,812	
2002.....	2,617	
After 2002.....	5,799	
	20,250	
Total.....	\$ 20,250	

Rent expense for premises leased under operating leases totaled \$2.0 million, \$1.9 million and \$2.0 million for the years ended December 31, 1997, 1996 and 1995, respectively.

8. DEPOSITS

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$110.4 million and \$75.0 million at December 31, 1997 and 1996, respectively. At December 31, 1997, all time deposit accounts exceeding \$100,000 were scheduled to mature within one year.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. INCOME TAXES

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

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995

	(DOLLARS IN THOUSANDS)		
Current provision:			
Federal.....	\$ 16,287	\$ 12,425	\$ 12,137
State.....	5,114	4,719	3,429
Deferred benefit:			
Federal.....	(1,328)	(1,770)	(3,383)
State.....	(30)	(1,064)	(481)

Income tax expense.....	\$ 20,043	\$ 14,310	\$ 11,702

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

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995

Federal statutory income tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of the federal tax effect.....	6.9	6.6	6.4
Tax-exempt interest income.....	(1.1)	(0.4)	(0.5)
Other--net.....	1.2	(1.2)	(1.7)

Effective income tax rate.....	42.0%	40.0%	39.2%

Deferred tax assets (liabilities) consist of the following:

	YEARS ENDED DECEMBER 31,	
	1997	1996

	(DOLLARS IN THOUSANDS)	
Deferred tax assets:		
Allowance for loan losses.....	\$ 14,813	\$ 12,955
Other reserves not currently deductible.....	2,812	3,158
State income taxes.....	1,450	1,608
Depreciation and amortization.....	985	768

Gross deferred tax assets.....	20,060	18,489
Deferred tax liabilities:		
Other deferred tax liabilities.....	(306)	(93)
Net unrealized gain on available-for-sale investments.....	(1,681)	(1,706)

Gross deferred tax liabilities.....	(1,987)	(1,799)

Net deferred tax assets.....	\$ 18,073	\$ 16,690

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company believes a valuation allowance is not needed to reduce the net deferred tax assets as it is more likely than not that the net deferred tax assets will be realized through recovery of taxes previously paid and/or future taxable income. The amount of the total gross deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

10. EMPLOYEE BENEFIT PLANS

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

Employees participating in the 401(k) component of the plan may elect to have a portion of their salary deferred and contributed to the plan. The amount of salary deferred is not subject to federal or state income taxes at the time of deferral. The Company matches up to \$1,000 of an employee's contributions in any plan year, with the Company's matching contribution vesting in equal annual increments over five years. The Company's matching 401(k) contributions totaled \$0.4 million in 1997 and \$0.3 million in both 1996 and 1995.

In March 1996, the Company established the Silicon Valley Bank Money Purchase Pension Plan (the "MPP Plan"), effective January 1, 1995, for the guaranteed 5.0% quarterly contributions formerly made to the ESOP prior to 1995. All individuals that are employed by the Company on the first and last day of a fiscal quarter are eligible for quarterly MPP Plan contributions. On a quarterly basis, the Company contributes cash in an amount equal to 5.0% of an eligible employee's quarterly base salary, less Internal Revenue Code (IRC) Section 401(k) and Section 125 deferrals. The MPP Plan contributions vest in equal annual increments over five years. The Company's contributions to the MPP Plan totaled \$0.9 million in 1997 and \$0.8 million in both 1996 and 1995.

Discretionary ESOP contributions, based on the Company's net income, are made by the Company to all eligible individuals employed by the Company on the last day of the fiscal year. The Company may elect to contribute cash, or the Company's common stock, in an amount not exceeding 10.0% of the eligible employee's base salary earned in the fiscal year, less IRC Section 401(k) and Section 125 deferrals. The ESOP contributions vest in equal annual increments over five years. The Company's contributions to the ESOP totaled \$1.7 million, \$1.4 million and \$1.5 million for 1997, 1996 and 1995, respectively. At December 31, 1997, the ESOP owned 437,931 equivalent shares of the Company's common stock. All shares held by the ESOP are treated as outstanding shares in both the Company's basic and diluted earnings per share computations.

The Company maintains an employee stock purchase plan (ESPP) under which participating employees may annually contribute up to 10.0% of their gross compensation to purchase shares of the Company's common stock at 85.0% of its fair market value at either the beginning or end of each six-month offering period, whichever price is less. All employees of the Company are eligible to participate in the ESPP. The ESPP is noncompensatory to the employees and results in no expense to the Company. For the first six-month offering period of 1997, 20,908 shares of the Company's common stock were issued under the ESPP at \$27.41 per share, while 15,137 shares of the Company's common stock were issued at \$38.46 per share for the second six-month offering period of 1997. At December 31, 1997, 94,769 shares of the Company's common stock were reserved for future issuance under the ESPP.

In April 1997, the Company's shareholders approved the 1997 Equity Incentive Plan (the "1997 Plan"). The 1997 Plan, along with the Company's 1983 and 1989 stock option plans, provides for the

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

granting of incentive and non-qualified stock options which entitle directors, employees and certain other parties to purchase shares of the Company's common stock at a price not less than 100% and 85% of the fair market value of the common stock on the date the option is granted for incentive and non-qualified stock options, respectively. Options may vest over various periods not in excess of five years from the date of grant and expire five to ten years from the date of grant. The following table provides stock option information related to the 1983 and 1989 stock option plans and the 1997 Plan:

	1997		1996		1995	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at January 1,.....	1,034,355	\$ 12.50	1,116,202	\$ 10.29	996,001	\$ 8.15
Granted.....	414,000	34.16	143,477	24.56	372,093	14.39
Exercised.....	(459,356)	8.65	(215,239)	9.07	(222,811)	7.48
Forfeited.....	(36,445)	23.72	(10,085)	12.44	(29,081)	10.41
Outstanding at December 31,.....	952,554	\$ 23.35	1,034,355	\$ 12.50	1,116,202	\$ 10.29
Exercisable at December 31,.....	420,959	\$ 16.13	666,096	\$ 11.14	580,358	\$ 8.05

The following table summarizes information about stock options outstanding as of December 31, 1997:

RANGES OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE	
\$ 5.62 - \$ 9.50.....	92,041	0.46	\$ 8.72	92,041	\$ 8.72	
9.88 - 12.75.....	66,486	1.18	10.22	66,486	10.22	
13.63 - 13.63.....	134,150	2.06	13.63	77,885	13.63	
14.13 - 23.00.....	131,400	2.85	15.98	51,210	15.49	
24.25 - 31.25.....	129,977	3.39	24.69	110,837	24.47	
33.00 - 33.00.....	358,000	9.02	33.00	22,500	33.00	
38.50 - 55.38.....	40,500	8.53	44.62	--	--	
\$ 5.62 - \$55.38.....	952,554	5.03	\$ 23.35	420,959	\$ 16.13	

At December 31, 1997, options for 421,200 and 14,691 shares were available for future grant under the Company's 1997 Plan and 1989 stock option plan, respectively. There were no shares available for future grant under the Company's 1983 stock option plan.

The Company's 1989 stock option plan and 1997 Plan also provide for the granting of shares of the Company's common stock to directors, employees and certain other parties. Shares granted to employees under these plans may be subject to certain vesting requirements and resale restrictions (restricted stock). For restricted stock, unearned compensation equivalent to the market value of the Company's common stock on the date of grant is charged to shareholders' equity and amortized into noninterest expense over the vesting term. In 1997, 110,300 shares of restricted stock were issued to employees at a weighted-average fair value of \$55.91 per share. In 1996, 17,500 shares of restricted stock were issued to employees

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

at a weighted-average fair value of \$23.46 per share. There were no restricted stock grants in 1995. At December 31, 1997, there were 133,134 shares of restricted stock outstanding, and the vesting of these shares occurs at various periods through the year 2001.

The Company recognized \$0.8 million, \$0.1 million and \$0.5 million in employee stock-based compensation costs resulting from the amortization of unearned compensation related to restricted stock, stock options and other miscellaneous employee stock awards during 1997, 1996 and 1995, respectively.

The Company adopted SFAS No. 123 effective January 1, 1996, but continues to account for employee and director stock-based compensation plans under the intrinsic value accounting methodology prescribed by APB Opinion No. 25. SFAS No. 123 requires that stock-based compensation to parties other than employees and directors be accounted for under the fair value method. Accordingly, no compensation cost has been recognized for the Company's stock option awards to employees and directors and for shares issued under the ESPP to employees in 1997, 1996 and 1995. The weighted-average fair values of options granted to employees, directors and certain other parties were \$16.32, \$10.83 and \$6.70 per share in 1997, 1996 and 1995, respectively. Had compensation cost related to both the Company's stock option awards to employees and directors and to the ESPP been determined under the fair value method prescribed under SFAS No. 123, the Company's net income, basic earnings per share and diluted earnings per share would have been the pro forma amounts indicated below.

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net income:			
As reported.....	\$ 27,678	\$ 21,466	\$ 18,153
Pro forma (1).....	24,892	20,465	17,189
Basic earnings per share:			
As reported.....	\$ 2.86	\$ 2.33	\$ 2.08
Pro forma (1).....	2.57	2.22	1.97
Diluted earnings per share:			
As reported.....	\$ 2.72	\$ 2.21	\$ 1.98
Pro forma (1).....	2.47	2.12	1.90

(1) The pro forma amounts noted above only reflect the effects of stock-based compensation grants made after 1994. Because stock options are granted each year and vest over various periods, these pro forma amounts may not reflect the full effect of applying the fair value method established by SFAS No. 123 that would be expected if all outstanding stock option grants were accounted for under this method.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The fair value of the stock option grants in 1997, 1996 and 1995 used in determining the pro forma net income and the basic and diluted earnings per share amounts indicated above were estimated using the Black-Scholes option-pricing model with the following assumptions:

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
Dividend yield.....	--%	--%	--%
Expected life of options in years.....	5	4	4
Expected volatility of the Company's underlying common stock.....	44.69%	47.53%	51.08%
Expected risk-free interest rate.....	6.29%	6.05%	6.29%

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

Compensation expense related to the ESPP in 1997, 1996 and 1995, used in determining the pro forma net income and basic and diluted earnings per share amounts indicated above, was equal to the difference between the fair value of the Company's common stock when issued under the ESPP and the actual price paid by employees to acquire the common stock.

11. RELATED PARTIES

In December 1997, Silicon Valley Bancshares (parent company) loaned \$250,000 to an officer of the Company to purchase a primary residence in Northern California in connection with a relocation agreement. The loan is interest-free, is secured by a second deed of trust on the aforementioned residence and is payable in five annual installments of \$50,000 beginning in December 1998. In January 1998, Silicon Valley Bancshares also loaned the same officer \$600,000 as part of the same relocation agreement. This second loan is interest-free, is secured by a second deed of trust on the aforementioned residence and is due in full in December 2002. The Company had no other loans outstanding to related parties during 1997. In a separate agreement, the Bank awarded the same officer a \$250,000 bonus, payable in five annual installments of \$50,000 beginning in December 1998.

The Silicon Valley Bank Foundation (the "Foundation") was established by the Company in 1995 to maintain good corporate citizenship in its communities. The Foundation is funded entirely by the Company, and received contributions from the Company totaling \$0.1 million in 1997, 1996 and 1995.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Company uses financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in foreign currency exchange rates. These financial instruments include commitments to extend credit, commercial and standby letters of credit, and foreign exchange forward contracts. 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.

COMMITMENTS TO EXTEND CREDIT

A commitment to extend credit is a formal agreement to lend funds to a customer as long as there is no violation of any condition established in the agreement. Such commitments generally have fixed expiration dates, or other termination clauses, and usually require a fee paid by the customer upon the Company issuing the commitment. As of December 31, 1997 and 1996, the Company had \$426.1 million

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and \$392.2 million of unused loan commitments available to customers, of which \$86.4 million and \$80.2 million had a fixed interest rate, respectively. The Company's exposure arising from interest rate risk associated with fixed rate loan commitments is not considered material. Commitments which are unavailable for funding due to customers not meeting all collateral, compliance and financial covenants required under loan commitment agreements totaled \$1.4 billion and \$952.5 million at December 31, 1997 and 1996, respectively. The Company's potential exposure to credit loss, in the event of nonperformance by the other party to the financial instrument, is the contractual amount of the available unused loan commitment. The Company uses the same credit approval and monitoring process in extending loan commitments as it does in making loans. The actual liquidity needs or the credit risk that the Company has experienced have historically been lower than the contractual amount of commitments to extend credit because a significant portion of these commitments expire without being drawn upon. The Company evaluates each potential borrower and the necessary collateral on an individual basis. The type of collateral varies, but may include real property, bank deposits, or business and personal assets. The potential credit risk associated with these commitments is considered in Management's evaluation of the adequacy of the allowance for loan losses.

COMMERCIAL AND STANDBY LETTERS OF CREDIT

Commercial and standby letters of credit represent conditional commitments issued by the Company on behalf of a customer to guarantee the performance of the customer to a third party when certain specified future events have occurred. Commercial letters of credit are issued primarily for inventory purchases by customers and are typically short-term in nature. Standby letters of credit are typically issued as a credit enhancement for clients' contractual obligations to third parties such as landlords. Letters of credit have fixed expiration dates and generally require a fee paid by the customer upon the Company issuing the commitment. Fees generated from these letters of credit are recognized in noninterest income over the commitment period. At December 31, 1997 and 1996, commercial and standby letters of credit totaled a combined \$112.9 million and \$81.1 million, respectively.

The credit risk involved in issuing letters of credit is essentially the same as that involved with extending loan commitments to customers, and accordingly, the Company uses a credit evaluation process and collateral requirements similar to those for loan commitments. The actual liquidity needs or the credit risk that the Company has experienced have historically been lower than the contractual amount of letters of credit issued because a significant portion of these conditional commitments expire without being drawn upon.

FOREIGN EXCHANGE FORWARD CONTRACTS

The Company enters into foreign exchange forward contracts with customers involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the customer need. The Company enters into offsetting foreign exchange forward contracts with correspondent banks to hedge against the risk of fluctuations in foreign currency exchange rates related to the foreign exchange forward contracts entered into with its customers. These contracts are short-term in nature, typically expiring in less than 90 days. At December 31, 1997 and 1996, the notional amounts of these contracts totaled \$28.2 million and \$28.7 million, respectively. Credit exposure for foreign exchange forward contracts is equal to the gross unrealized gains in such contracts. Total gross unrealized gains on these contracts with both customers and correspondent banks amounted to \$0.3 million at December 31, 1997 and \$0.9 million at December 31, 1996. The Company has incurred no losses from counterparty nonperformance and anticipates performance by all counterparties to such foreign exchange forward contracts.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following methods and assumptions have been used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value.

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

Investment securities: For investment securities classified as available-for-sale, fair values are based on quoted market prices or dealer quotes.

Loans: The fair value of performing fixed and variable rate loans is calculated by discounting contractual cash flows using discount rates that reflect the Company's current pricing for loans with similar credit ratings and for the same remaining maturities. Nonperforming fixed and variable rate loans and loans classified as special mention, substandard or doubtful are valued by discounting estimated cash flows at the effective interest rates on the loans, and using assumptions as to the expected timing and extent of principal recovery with no recovery assumed for contractual interest owed.

Deposits: The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, NOW accounts and money market deposits is equal to the amount payable on demand at the reporting date. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered by the Company for time deposits with similar remaining maturities. The fair value of deposits does not include the benefit that results from the low cost of funding provided by the Company's deposits as compared to the cost of borrowing funds in the market.

Off-balance sheet financial instruments: The Company has not estimated the fair value of off-balance sheet commitments to extend credit, commercial letters of credit and standby letters of credit. Because of the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

upon, coupled with the lack of an established market for these financial instruments, Management does not believe it is meaningful or practicable to provide an estimate of fair value.

The fair value of foreign exchange forward contracts is based on the estimated amounts the Company would receive or pay to terminate the contracts at the reporting date (i.e., mark-to-market value).

Limitations: The information presented herein is based on pertinent information available to the Company as of December 31, 1997 and 1996, respectively. Although Management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since the most recent year end and the estimated fair values of these financial instruments may have changed significantly since that point in time.

The estimated fair values of the Company's financial instruments at December 31, 1997 and 1996 are presented below. Bracketed amounts in the estimated fair value columns represent estimated cash outflows required to settle the obligations at market rates as of the respective reporting dates.

	DECEMBER 31,			
	1997		1996	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Financial Assets:				
Cash and due from banks.....	\$ 105,059	\$ 105,059	\$ 122,836	\$ 122,836
Federal funds sold and securities purchased under agreement to resell.....	321,773	321,773	310,341	310,341
Investment securities, at fair value.....	1,013,904	1,013,904	625,022	625,022
Net loans.....	1,136,945	1,151,273	830,792	836,074
Financial Liabilities:				
Noninterest-bearing demand deposits.....	788,442	788,442	599,257	599,257
NOW deposits.....	21,348	21,348	8,443	8,443
Money market deposits.....	1,497,996	1,497,996	1,081,391	1,081,391
Time deposits.....	124,621	124,922	85,213	85,282
Off-Balance Sheet Financial Instruments:				
Foreign exchange forward contracts--receive.....	--	13,798	--	13,445
Foreign exchange forward contracts--pay.....	--	(13,798)	--	(13,445)

14. LEGAL MATTERS

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

15. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that it may declare without the prior approval of the Federal Reserve Board and the California Department of Financial Institutions. At December 31, 1997, approximately \$56.0 million of the Bank's retained earnings were available for dividend declaration to the Company without prior regulatory approval.

The Company and the Bank are subject to capital adequacy guidelines issued by the Federal Reserve Board. Failure to meet minimum capital requirements can initiate certain mandatory and possibly

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Under these capital guidelines, the minimum total risk-based capital ratio and Tier 1 risk-based capital ratio requirements are 10.0% and 6.0%, respectively, of risk-weighted assets and certain off-balance sheet items for a well capitalized depository institution.

The Federal Reserve Board has also established minimum capital leverage ratio guidelines for state member banks. The ratio is determined using Tier 1 capital divided by quarterly average total assets. The guidelines require a minimum of 5.0% for a well capitalized depository institution.

Management believes, as of December 31, 1997, that the Company and the Bank meet all capital adequacy requirements to which they are subject. As of December 31, 1997, the most recent notifications from the Federal Reserve Board categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following table presents the capital ratios for the Company and the Bank, compared to the minimum regulatory capital requirements for an adequately capitalized depository institution, as of December 31, 1997 and 1996:

	ACTUAL RATIO	ACTUAL AMOUNT	MINIMUM RATIO	MINIMUM CAPITAL REQUIREMENT
	(DOLLARS IN THOUSANDS)			
As of December 31, 1997:				
Total risk-based capital ratio				
Company.....	11.5%	\$ 193,256	8.0%	\$ 134,325
Bank.....	10.8%	\$ 181,472	8.0%	\$ 134,056
Tier 1 risk-based capital ratio				
Company.....	10.2%	\$ 172,061	4.0%	\$ 67,163
Bank.....	9.6%	\$ 160,319	4.0%	\$ 67,028
Tier 1 leverage ratio				
Company.....	7.1%	\$ 172,061	4.0%	\$ 97,411
Bank.....	6.6%	\$ 160,319	4.0%	\$ 97,107
As of December 31, 1996:				
Total risk-based capital ratio				
Company.....	11.5%	\$ 149,408	8.0%	\$ 104,074
Bank.....	10.8%	\$ 140,308	8.0%	\$ 103,601
Tier 1 risk-based capital ratio				
Company.....	10.2%	\$ 132,944	4.0%	\$ 52,037
Bank.....	9.6%	\$ 123,916	4.0%	\$ 51,801
Tier 1 leverage ratio				
Company.....	7.7%	\$ 132,944	4.0%	\$ 69,151
Bank.....	7.2%	\$ 123,916	4.0%	\$ 68,814

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. REVOLVING LINE OF CREDIT

In January 1997, the Bank established a \$30.0 million revolving line of credit with another financial institution to further support any short-term liquidity needs of the Bank. The revolving line of credit is unsecured, is subject to certain covenants and bears interest on outstanding principal equal to the issuing financial institution's prime rate. The revolving line of credit expires on March 31, 1998, and the Bank had no borrowings under this credit facility during 1997. Management believes that, as of December 31, 1997, the Bank is in compliance with all covenants related to this revolving line of credit.

17. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The condensed balance sheets of Silicon Valley Bancshares (parent company only) at December 31, 1997 and 1996, and the related condensed income statements and condensed statements of cash flows for the years ended December 31, 1997, 1996 and 1995 are presented below. Certain reclassifications have been made to the parent company's 1996 and 1995 financial information to conform to the 1997 presentations. Such reclassifications had no effect on the results of operations or shareholders' equity.

CONDENSED BALANCE SHEETS

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN THOUSANDS)	
Assets:		
Cash on deposit with subsidiary bank.....	\$ 8,584	\$ 4,225
Investment securities, at fair value.....	3,433	9,538
Loan to related party.....	250	--
Other assets.....	516	212
Investment in subsidiary bank.....	162,218	124,064
Total assets.....	\$ 175,001	\$ 138,039
Liabilities.....	\$ 520	\$ 2,639
Shareholders' equity.....	174,481	135,400
Total liabilities and shareholders' equity.....	\$ 175,001	\$ 138,039

CONDENSED INCOME STATEMENTS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
Interest income.....	\$ 630	\$ 345	\$ 99
Income from the disposition of client warrants.....	5,480	5,389	8,205
General and administrative expenses.....	(229)	(175)	(86)
Income tax expense.....	(2,470)	(2,364)	(3,497)
Income before equity in net income of subsidiary bank.....	3,411	3,195	4,721
Equity in net income of subsidiary bank.....	24,267	18,271	13,432
Net income.....	\$ 27,678	\$ 21,466	\$ 18,153

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN THOUSANDS)		
Cash flows from operating activities:			
Net income.....	\$ 27,678	\$ 21,466	\$ 18,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiary bank.....	(24,267)	(18,271)	(13,432)
Increase in other assets.....	(304)	(196)	(16)
Increase (decrease) in liabilities.....	(876)	924	217
Other, net.....	14	27	16
Net cash provided by operating activities.....	2,245	3,950	4,938
Cash flows from investing activities:			
Net (increase) decrease in investment securities.....	3,074	(5,626)	--
Net increase in loan to related party.....	(250)	--	--
Investment in subsidiary bank.....	(7,115)	(2,956)	(5,720)
Net cash applied to investing activities.....	(4,291)	(8,582)	(5,720)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of issuance costs.....	6,405	4,298	4,267
Net cash provided by financing activities.....	6,405	4,298	4,267
Net increase (decrease) in cash.....	4,359	(334)	3,485
Cash on deposit with subsidiary bank at January 1,.....	4,225	4,559	1,074
Cash on deposit with subsidiary bank at December 31,.....	\$ 8,584	\$ 4,225	\$ 4,559

18. UNAUDITED QUARTERLY FINANCIAL DATA

	1997				1996		
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)						
Net interest income.....	\$ 23,857	\$ 27,082	\$ 29,054	\$ 30,831	\$ 20,273	\$ 20,866	\$ 22,942
Provision for loan losses.....	3,348	2,618	1,716	2,385	1,523	2,065	2,962
Noninterest income.....	4,830	2,977	2,806	2,652	1,833	3,554	2,013
Noninterest expense.....	14,667	15,754	17,618	18,262	12,788	12,960	13,207
Income before income taxes.....	10,672	11,687	12,526	12,836	7,795	9,395	8,786
Income tax expense.....	4,482	4,908	5,261	5,392	3,118	3,758	3,514
Net income.....	\$ 6,190	\$ 6,779	\$ 7,265	\$ 7,444	\$ 4,677	\$ 5,637	\$ 5,272
Basic earnings per share.....	\$ 0.65	\$ 0.71	\$ 0.75	\$ 0.75	\$ 0.51	\$ 0.61	\$ 0.57
Diluted earnings per share.....	\$ 0.62	\$ 0.67	\$ 0.71	\$ 0.72	\$ 0.49	\$ 0.58	\$ 0.54
	FOURTH QUARTER						
Net interest income.....	\$ 23,194						
Provision for loan losses.....	3,876						
Noninterest income.....	4,209						
Noninterest expense.....	13,727						
Income before income taxes.....	9,800						
Income tax expense.....	3,920						
Net income.....	\$ 5,880						

Basic earnings per share.....	\$	0.64
Diluted earnings per share.....	\$	0.60

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the sections titled "Proposal No. 1--Election of Directors," "Information on Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the definitive proxy statement for the Company's 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the sections titled "Information on Executive Officers," "Report of the Executive Committee of the Board on Executive Compensation," "Table 1--Summary Compensation Table," "Table 2--Option Grants in Last Fiscal Year," "Table 3--Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values," "Termination Arrangements," "Return to Shareholders Performance Graph," and "Director Compensation" contained in the definitive proxy statement for the Company's 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the sections titled "Security Ownership of Directors and Executive Officers" and "Security Ownership of Principal Shareholders" contained in the definitive proxy statement for the Company's 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the section titled "Certain Relationships and Related Transactions" in the definitive proxy statement for the Company's 1998 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. and 2.

The financial statements and supplementary data contained in Item 8 of this report are filed as part of this report.

All schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or related notes.

(a) 3.

Exhibits are listed in the Index to Exhibits beginning on page 70 of this report.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the quarter ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILICON VALLEY BANCSHARES

By: /s/ JOHN C. DEAN

John C. Dean
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Dated: March 13, 1998

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

<i>SIGNATURE</i>	<i>TITLE</i>	<i>DATE</i>
<i>/s/ DANIEL J. KELLEHER</i> ----- <i>Daniel J. Kelleher</i>	<i>Chairman of the Board of Directors and Director</i>	<i>March 13, 1998</i>
<i>/s/ JOHN C. DEAN</i> ----- <i>John C. Dean</i>	<i>President, Chief Executive Officer and Director (Principal Executive Officer)</i>	<i>March 13, 1998</i>
<i>/s/ SCOTT H. RAY</i> ----- <i>Scott H. Ray</i>	<i>Executive Vice President, Chief Financial Officer (Principal Financial Officer)</i>	<i>March 13, 1998</i>
<i>/s/ CHRISTOPHER T. LUTES</i> ----- <i>Christopher T. Lutes</i>	<i>Senior Vice President, Controller (Principal Accounting Officer)</i>	<i>March 13, 1998</i>
<i>/s/ GARY K. BARR</i> ----- <i>Gary K. Barr</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ JAMES F. BURNS, JR.</i> ----- <i>James F. Burns, Jr.</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ DAVID DEWILDE</i> ----- <i>David deWilde</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ CLARENCE J. FERRARI, JR.</i> ----- <i>Clarence J. Ferrari, Jr.</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ HENRY M. GAY</i> ----- <i>Henry M. Gay</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ JAMES R. PORTER</i> ----- <i>James R. Porter</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ MICHAEL ROSTER</i> ----- <i>Michael Roster</i>	<i>Director</i>	<i>March 13, 1998</i>
<i>/s/ ANN R. WELLS</i> ----- <i>Ann R. Wells</i>	<i>Director</i>	<i>March 13, 1998</i>

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
3.1	Articles of Incorporation of the Company, as amended(2)	--
3.2	Bylaws of the Company, amendment and restatement effective as of August 21, 1997(13)	--
4.1	Article Three of Articles of Incorporation (included in Exhibit 3.1)(2)	--
10.3	Employment Agreement between Silicon Valley Bancshares and John C. Dean(5)	--
10.7	Lease Agreement between Silicon Valley Bancshares and Almaden Tower Partners, a California general partnership; Ten Almaden Blvd., San Jose, California 95113(3)	--
10.9	Lease Agreement between Silicon Valley Bank and Palo Alto Square; Two Palo Alto Square, Palo Alto, California 94306(1)	--
10.9(a)	Second amendment to lease outlined in Exhibit 10.9(5)	--
10.10	Lease Agreement between Silicon Valley Bank and Sharon Land Company; 3000 Sand Hill Road, Menlo Park, California 94025(2)	--
10.10(a)	First amendment to lease outlined in Exhibit 10.10(6)	--
10.10(b)	Second amendment to lease outlined in Exhibit 10.10(6)	--
10.15	Lease Agreement between Silicon Valley Bank and Ms. Anita McGill; 11000 S.W. Stratus Avenue, Suite 170, Beaverton, Oregon 97005(4)	--
10.16	Lease Agreement between Silicon Valley Bank and Westwood Company-Palo Alto, a California Limited Partnership; 1731 Embarcadero Road, Palo Alto, California 94303(5)	--
10.17	Lease Agreement between Silicon Valley Bank and WRC Properties, Inc.; 3003 Tasman Drive, Santa Clara, CA 95054(6)	--
10.17(a)	First amendment to lease outlined in Exhibit 10.17(12)	--
10.18	Lease Agreement between Silicon Valley Bank and Da Rosa Family Trust, Jose G. Da Rosa, Trustee, and Sorrento Mesa Trust, Mary Alice Gonsalves, Trustee, dba Balboa Travel Plaza; 5414 Oberlin Drive, San Diego, California, County of San Diego(6)	--
10.24	Lease Agreement between Norman B. Leventhal and Edwin N. Sidman, Trustees and Silicon Valley Bank; 40 William Street, Wellesley, Massachusetts 02181(8)	--
10.28	Amendment and Restatement of the Silicon Valley Bancshares 1989 Stock Option Plan(10)	--
10.29	Silicon Valley Bank Money Purchase Pension Plan(10)	--
10.30	Amendment and Restatement of the Silicon Valley Bank Money Purchase Pension Plan(10)	--
10.31	Amendment and Restatement of the Silicon Valley Bank 401(k) and Employee Stock Ownership Plan(10)	--
10.32	Executive Change in Control Severance Benefits Agreement(11)	--

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
10.33	Change in Control Severance Policy For Non-executives(11)	--
10.34	Silicon Valley Bancshares 1997 Equity Incentive Plan(12)	--
10.35	Silicon Valley Bancshares 1988 Employee Stock Purchase Plan Effective June 22, 1988, revised October 17, 1997(13)	--
10.36	Relocation Agreement between Silicon Valley Bancshares and Kenneth P. and Ruth Wilcox, as of December 18, 1997.....	73
10.37	Bonus Agreement between Silicon Valley Bank and Kenneth P. Wilcox, as of December 18, 1997.....	76
11.1	Calculation of Earnings per Share.....	77
21.1	Subsidiaries of Silicon Valley Bancshares.....	78
23.1	Independent Auditors' Consent.....	79
27.1	Financial Data Schedule.....	80

INDEX TO EXHIBITS

- (1) Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1987.
- (2) Incorporated by reference to Exhibits 3.1, 4.1 and 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
- (3) Incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989.
- (4) Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.
- (5) Incorporated by reference to Exhibits 10.3, 10.9(a) and 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.
- (6) Incorporated by reference to Exhibits 10.10(a), 10.10(b), 10.17, and 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
- (7) Incorporated by reference to Exhibits 10.19, 10.20, 10.21, and 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
- (8) Incorporated by reference to Exhibits 10.24, 10.25, 10.26, and 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (9) Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- (10) Incorporated by reference to Exhibits 10.28, 10.29, 10.30, and 10.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- (11) Incorporated by reference to Exhibits 10.32 and 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
- (12) Incorporated by reference to Exhibits 10.17(a) and 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (13) Incorporated by reference to Exhibits 3.2 and 10.35 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

RELOCATION AGREEMENT

This Relocation Agreement is dated as of December 18, 1997. Silicon Valley Bank ("Bank") and Silicon Valley Bancshares ("Company") have asked Kenneth P. ("KW") and Ruth Wilcox (together the "Wilcoxes") to relocate to California in conjunction with KW's promotion to Chief Banking Officer. The Wilcoxes' have agreed.

Bank, Company and the Wilcoxes' agree as follows:

MOVE

1. KW will move to California on or about April 1, 1998.
2. Bank will provide a reasonable relocation package for the Wilcoxes' move.

WILCOX REPRESENTATIONS

3. The Wilcoxes' represent that:
 - a. They reasonably expect to, and will, itemize deductions on their income tax filings through calendar year 2002.
 - b. The California residence will be their primary residence.

RELOCATION LOANS

4. Company will make the Wilcoxes' the following two interest free relocation loans to be used only to purchase their primary residence in California. The Wilcoxes' agree to repay the loans as follows:
 - a. \$250,000 payable at \$50,000 each December 1st beginning December 1, 1998 (with the final \$50,000 installment payable on December 1, 2002); and
 - b. \$600,000 due in full on December 1, 2002.

Both loans will be secured by a second deed of trust on the Wilcoxes' California primary residence in the form of Exhibit A.

EMPLOYMENT TERMINATION

5. If KW leaves for any reason then the \$250,000 is due and payable immediately.
6. If KW resigns or is involuntarily terminated before December 1, 2002 for any reason except death, or an Involuntary Termination or Constructive Termination following a Change in Control (all as defined and further described in the Executive Change in Control Severance Benefits Agreement dated August 12, 1996, as renewed from time to time) then the \$600,000 loan will be due and payable within a reasonable time not exceeding one year from the resignation or termination date.

Exhibit 10.36

7. If employment terminates by KWs' death before December 2, 2002 then:

a. the \$600,000 loan will be due and payable as in 4.b.; and

b. Bank will provide a reasonable relocation package so that if Ruth Wilcox chooses she and her family may return to Massachusetts.

8. If employment terminates by an Involuntary Termination or Constructive Termination following a Change in Control then the \$600,000 will be due as described in 4.b.

WILCOXES' RIGHTS NOT TRANSFERABLE

9. The Wilcoxes' rights to the interest free loans under this Agreement are not transferable.

NOT AN EMPLOYMENT AGREEMENT

10. This Agreement is a relocation agreement, not an employment agreement or contract.

CHOICE OF LAW

11. California law governs this agreement.

Silicon Valley Bank Silicon Valley Bancshares

/s/ John C. Dean

signature

John C. Dean, President & Chief

Executive Officer

name and title

December 18, 1997

date

/s/ John C. Dean

signature

John C. Dean, President & Chief

Executive Officer

name and title

December 18, 1997

date

Kenneth P. Wilcox

/s/ Kenneth P. Wilcox

signature

December 18, 1997

date

Ruth Wilcox

/s/ Ruth Wilcox

signature

December 18, 1997

date

EXHIBIT A

**RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:**

Silicon Valley Bancshares
3003 Tasman Drive
NC812/ Legal Department
Santa Clara, CA 95054

(FOR RECORDER'S USE)

DEED OF TRUST

This Deed of Trust is made as of _____, among _____, whose address is _____, herein called Trustor, _____, herein called Trustee, and Silicon Valley Bancshares, herein called Beneficiary.

Trustor hereby irrevocably grants, transfers, assigns to Trustee in trust, with power of sale that certain real property in _____, more particularly described on Exhibit "A" attached hereto, for purposes of securing (1) payment of the sum of \$_____ according to the terms of that certain Agreement being executed herewith made by Trustor and payable to the Beneficiary or (2) performance of each agreement of Trustor incorporated herein.

This Deed of Trust applies to, inures for the benefit of, and binds all the parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns.

SIGNATURE OF TRUSTOR:

NAME NAME

Exhibit 10.37

BONUS AGREEMENT

Kenneth P. Wilcox ("Wilcox") has accepted a promotion to Chief Banking Officer. Silicon Valley Bank ("Bank") has agreed to pay a \$50,000 bonus to Wilcox each December 1st starting December 1, 1998 and ending December 1, 2002. If Wilcox leaves for any reason before December 1, 2002 then any remaining \$50,000 payments will immediately be paid to him.

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

Silicon Valley Bank

/s/ John C. Dean

signature

John C. Dean, President and Chief Executive Officer
name and title

December 18, 1997

date

SILICON VALLEY BANCSHARES ANNUAL REPORT ON FORM 10-K

EXHIBIT 11.1 - CALCULATION OF EARNINGS PER SHARE

Years Ended December 31,	1997	1996	1995	1994	1993
(Dollars and shares in thousands, except per share amounts)					
BASIC EARNINGS PER SHARE:					
Income available to common shareholders	\$27,678	\$21,466	\$18,153	\$9,066	\$1,601
Weighted average shares outstanding	9,685	9,213	8,747	8,335	7,960
Basic earnings per share	\$ 2.86	\$ 2.33	\$ 2.08	\$ 1.09	\$ 0.20
DILUTED EARNINGS PER SHARE:					
Income available to common shareholders	\$27,678	\$21,466	\$18,153	\$9,066	\$1,601
Weighted average shares outstanding	9,685	9,213	8,747	8,335	7,960
Effect of dilutive securities	484	478	397	198	203
Weighted average diluted shares outstanding	10,169	9,691	9,144	8,533	8,163
Diluted earnings per share	\$ 2.72	\$ 2.21	\$ 1.98	\$ 1.06	\$ 0.20

SILICON VALLEY BANCSHARES ANNUAL REPORT ON FORM 10-K
EXHIBIT 21.1 - SUBSIDIARIES OF SILICON VALLEY BANCSHARES

Silicon Valley Bancshares owns 100.0% of the outstanding voting securities of the following corporations, both of which are included in Silicon Valley Bancshares' consolidated financial statements:

Name	Jurisdiction of Incorporation
----- Silicon Valley Bank SVB Leasing Company (inactive)	----- California California

SILICON VALLEY BANCSHARES ANNUAL REPORT ON FORM 10-K
EXHIBIT 23.1 - INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Silicon Valley Bancshares:

We consent to incorporation by reference in the registration statement (No. 2-90401) on Form S-8, in the registration statement (No. 33-60467) on Form S-8, in the registration statement (No. 33-05489) on Form S-8, and in the registration statement (No. 333-28185) on Form S-8 of Silicon Valley Bancshares of our report dated January 15, 1998, relating to the consolidated balance sheets of Silicon Valley Bancshares and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the December 31, 1997, annual report on Form 10-K of Silicon Valley Bancshares.

/s/ KPMG Peat Marwick LLP

San Jose, California

March 13, 1998

ARTICLE 9

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS, RELATED NOTES AND MANAGEMENT'S DISCUSSION AND ANALYSIS CONTAINED IN THE REPORT ON FORM 10-K, FILED BY SILICON VALLEY BANCSHARES FOR THE YEAR ENDED DECEMBER 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
CASH	105,059
INT BEARING DEPOSITS	273
FED FUNDS SOLD	321,500
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	1,013,904
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	1,174,645
ALLOWANCE	37,700
TOTAL ASSETS	2,625,123
DEPOSITS	2,432,407
SHORT TERM	0
LIABILITIES OTHER	18,235
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	77,063
OTHER SE	97,418
TOTAL LIABILITIES AND EQUITY	2,625,123
INTEREST LOAN	106,840
INTEREST INVEST	41,868
INTEREST OTHER	17,264
INTEREST TOTAL	165,972
INTEREST DEPOSIT	55,148
INTEREST EXPENSE	55,148
INTEREST INCOME NET	110,824
LOAN LOSSES	10,067
SECURITIES GAINS	90
EXPENSE OTHER	66,301
INCOME PRETAX	47,721
INCOME PRE EXTRAORDINARY	27,678
EXTRAORDINARY	0
CHANGES	0
NET INCOME	27,678
EPS PRIMARY	2.86 ¹
EPS DILUTED	2.72 ²
YIELD ACTUAL	5.6
LOANS NON	24,476
LOANS PAST	1,016
LOANS TROUBLED	0
LOANS PROBLEM	13,744
ALLOWANCE OPEN	32,700
CHARGE OFFS	9,236
RECOVERIES	4,169
ALLOWANCE CLOSE	37,700
ALLOWANCE DOMESTIC	31,480
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	6,220

¹ Represents basic earnings per share.

² Represents diluted earnings per share.

