

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, 1998

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)	94-2856336 (I.R.S. Employer Identification No.)
3003 TASMAN DRIVE SANTA CLARA, CALIFORNIA (Address of principal executive offices)	95054-1191 (Zip Code)

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

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, 1999, on the Nasdaq National Market was \$390,300,699.

At January 31, 1999, 20,746,881 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 1999 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year ended December 31, 1998	----- Part III

This report contains a total of 138 pages, including exhibits.

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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. The Bank is a member of the Federal Reserve System and its deposits are insured by the Bank Insurance Fund (the "BIF"), as administered by the Federal Deposit Insurance Corporation (the "FDIC"). 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. Additionally, during the second quarter of 1998 the Company issued \$40.0 million in cumulative trust preferred securities through a newly formed special-purpose trust (SVB Capital I).

BUSINESS OVERVIEW

The Bank serves emerging growth and middle-market companies in 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. The Bank serves clients across the nation 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 seeks 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 technology and life sciences companies that receive equity funding from Asian (or Asian-based) venture capital sources, 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 current 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 cooerage.

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, Corporate 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. To the extent that clients of the Factoring and Commercial Finance Divisions grow and their financial condition strengthens, they may thereafter be served through the Bank's niche practices.

The Corporate Finance Division pursues opportunities in leasing, mezzanine lending and debt placements, targeting bank-eligible investment banking transactions.

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, 1998, 1997 and 1996, the Company and the Bank, in the aggregate, employed 590, 454 and 384 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, their 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 that of 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. The Company may engage "de novo" in permissible non-banking activities as listed in Regulation Y without the approval of the Federal Reserve Board, provided that the Company and the Bank are "well capitalized" and that certain other criteria are met. For purposes of determining the capital levels at which a bank holding company is considered well capitalized under Regulation Y, the Federal Reserve Board has adopted a minimum total risk-based capital

ratio of 10% on a consolidated basis and a minimum Tier 1 risk-based capital ratio of 6% on a consolidated basis. 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 of capital ratios.

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.

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's ability to pay cash dividends is limited by the California Corporation 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% 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. See "Item 1. Business--Supervision and Regulation--Dividends and Other Transfers of Funds" for further discussion regarding limitations on the ability of the Bank to pay dividends to the Company.

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 (the "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 under the symbol "SIVB", 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 Commissioner of the California Department 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 Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Company. Under such restrictions, the amount available for payment of dividends to the Company by the Bank totaled \$68.3 million at December 31, 1998. In addition, the Commissioner and the Federal Reserve Board have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice. See "Item 8. Financial Statements and Supplementary Data--Note 17 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.

The federal banking agencies require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total quarterly average assets, referred to as the Tier 1 leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum Tier 1 leverage ratio must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratio requirements that apply across the industry, the 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.

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.

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 17 to the Consolidated Financial Statements--Regulatory Matters" for the Company's and Bank's capital ratios as of December 31, 1998.

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, 1998. See "Item 8. Financial Statements and Supplementary Data-- Note 17 to the Consolidated Financial Statements--Regulatory Matters" for the Company's and Bank's capital ratios as of December 31, 1998.

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.

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 federal banking agencies have also adopted asset quality guidelines which 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. Finally, the federal banking agencies have adopted earnings guidelines which 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 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, 1998, 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, 1998, the Bank's assessment rate was the statutory minimum assessment of \$2,000 per year.

In addition to its normal deposit insurance premium as a member of the BIF, the Bank pays 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 (the "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 Economic Growth and Paperwork Reduction Act (the "Paperwork Reduction 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. 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 READINESS DISCLOSURE

The Federal Financial Institutions Examination Council (FFIEC), an oversight authority for financial institutions, has issued several interagency statements on Year 2000 project awareness. These statements require financial institutions to, among other things, examine the Year 2000 implications of their reliance on vendors, determine the potential impact of the Year 2000 issue on their customers, suppliers and borrowers, and to survey its exposure, measure its risk and prepare a plan to address the Year 2000 issue. In addition, federal banking regulators have issued safety and soundness guidelines to be followed by financial institutions to assure resolution of any Year 2000 problems. The federal banking agencies have asserted that Year 2000 testing and certification is a key safety and soundness issue in conjunction with regulatory examinations, and the failure to appropriately address the Year 2000 issue could result in supervisory action, including the reduction of the institution's supervisory ratings, the denial of applications for mergers or acquisitions, or the imposition of civil monetary penalties.

The Company, following an initial awareness phase, is utilizing a three-phase plan for achieving Year 2000 readiness. The Assessment Phase was intended to determine which computers, operating systems and applications require remediation and prioritizing those remediation efforts by identifying mission critical systems. The Assessment Phase has been completed except for the on-going assessment of new systems. The Remediation and Testing Phase addressed the correction or replacement of any non-compliant hardware and software related to the mission critical systems and testing of those systems. Since most of the Bank's information technology systems are off-the-shelf software, remediation efforts have focused on obtaining Year 2000 compliant application upgrades. The Bank's core banking system, which runs loans, deposits and the general ledger, has been upgraded to the Year 2000 compliant version and has been forward date tested and Year 2000 certified by the Bank. The Year 2000 releases for all of the Bank's other internal mission critical systems have also been received, forward date tested and certified. The next step of this phase, testing mission critical service providers, is anticipated to be substantially completed by March 31, 1999. During the final phase, the Implementation Phase, remediated and validated code will be tested in interfaces with customers, business partners, government institutions, and others. It is anticipated that the Implementation Phase will be substantially completed by June 30, 1999.

The Company may be impacted by the Year 2000 compliance issues of governmental agencies, businesses and other entities who provide data to, or receive data from, the Company, and by entities, such as borrowers, vendors, customers, and business partners, whose financial condition or operational capability is significant to

the Company. Therefore, the Company's Year 2000 project also includes assessing the Year 2000 readiness of certain customers, borrowers, vendors, business partners, counterparties, and governmental entities. In addition to assessing the readiness of these external parties, the Company is developing contingency plans which will include plans to recover operations and alternatives to mitigate the effects of counterparties whose own failure to properly address Year 2000 issues may adversely impact the Company's ability to perform certain functions. These contingency plans are currently being developed and are expected to be substantially completed by June 30, 1999.

If Year 2000 issues are not adequately addressed by the Company and significant third parties, the Company's business, results of operations and financial position could be materially adversely affected. Failure of certain vendors to be Year 2000 compliant could result in disruption of important services upon which the Company depends, including, but not limited to, such services as telecommunications, electrical power and data processing. Failure of the Company's loan customers to properly prepare for the Year 2000 could also result in increases in problem loans and credit losses in future years. It is not, however, possible to quantify the potential impact of any such losses at this time. Notwithstanding the Company's efforts, there can be no assurance that the Company or significant third party vendors or other significant third parties will adequately address their Year 2000 issues. The Company is continuing to assess the Year 2000 readiness of third parties but does not know at this time whether the failure of third parties to be Year 2000 compliant will have a material effect on the Company's results of operations, liquidity and financial condition.

The Company currently estimates that its total cost for the Year 2000 project will approximate \$3.0 million. During 1998, the Company incurred \$1.5 million in charges related to its Year 2000 remediation effort and expects to incur \$1.5 million in 1999. Charges include the cost of external consulting and the cost of accelerated replacement of hardware, but do not include the cost of internal staff redeployed to the Year 2000 project. The Company does not believe that the redeployment of internal staff will have a material impact on its financial condition or results of operations.

The foregoing paragraphs contain a number of forward-looking statements. These statements reflect Management's best current estimates, which were based on numerous assumptions about future events, including the continued availability of certain resources, representations received from third party service providers and other factors. There can be no guarantee that these estimates, including Year 2000 costs, will be achieved, and actual results could differ materially from those estimates. A number of important factors could cause Management's estimates and the impact of the Year 2000 issue to differ materially from what is described in the forward-looking statements contained in the above paragraphs. Those factors include, but are not limited to, the availability and cost of programmers and other systems personnel, inaccurate or incomplete execution of the phases, results of Year 2000 testing, adequate resolution of Year 2000 issues by the Company's customers, vendors, competitors, and counterparties, and similar uncertainties.

The forward-looking statements made in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("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 and was adopted by the Company as of January 1, 1998. See "Item 8. Financial Statements and Supplementary Data--Note 11 to the Consolidated Financial Statements--Comprehensive Income."

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 and was adopted by the Company as of December 31, 1998. See "Item 8. Financial Statements and Supplementary Data--Note 1 to the Consolidated Financial Statements--Significant Accounting Policies."

SFAS No. 132, "Statement on Employers' Disclosures about Pensions and Other Post-Retirement Benefits" was issued by the FASB in February 1998. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company does not have a pension plan or provide for other post-retirement benefits for employees, and thus this statement does not have a material impact on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The statement is effective for fiscal quarters of fiscal years beginning after June 15, 1999. The Company expects to adopt this statement on January 1, 2000. The Company has not yet determined the impact of its adoption on the Company's consolidated financial statements.

In October 1998, FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." SFAS No. 134 amends SFAS No. 65, "Accounting for Certain Mortgage Banking Activities," which establishes accounting and reporting standards for certain activities of mortgage banking enterprises and other enterprises that conduct operations that are substantially similar. SFAS No. 134 requires that after the securitization of mortgage loans held for sale, the resulting mortgage-backed securities and other retained interests should be classified in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," based on the company's ability and intent to sell or hold those investments. SFAS No. 134 is effective for the first fiscal quarter beginning after December 15, 1998. The Company does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

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. The Company began occupying the additional premises in 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, 1998, 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 1998.

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. The 1997 stock prices have been restated to reflect a two-for-one stock split distributed on May 1, 1998.

QUARTER	1998		1997	
	LOW	HIGH	LOW	HIGH
First.....	\$ 25.19	\$ 31.94	\$ 16.13	\$ 19.75
Second.....	\$ 30.47	\$ 36.00	\$ 16.69	\$ 23.00
Third.....	\$ 14.81	\$ 38.50	\$ 20.94	\$ 29.88
Fourth.....	\$ 12.50	\$ 26.63	\$ 24.57	\$ 29.22

SHAREHOLDERS

The number of shareholders of record of the Company's common stock was 721 as of January 31, 1999.

DIVIDENDS

The Company declared no cash dividends in 1997 or 1998, 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 17 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 1998 presentations. In addition, the Common Share Summary information for the prior years has been restated to reflect a two-for-one stock split distributed on May 1, 1998. Such reclassifications had no effect on the results of operations or shareholders' equity.

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(DOLLARS AND NUMBERS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
INCOME STATEMENT SUMMARY:					
Net interest income.....	\$ 146,615	\$ 110,824	\$ 87,275	\$ 73,952	\$ 60,260
Provision for loan losses.....	37,159	10,067	10,426	8,737	3,087
Noninterest income.....	23,162	13,265	11,609	12,565	4,922
Noninterest expense.....	83,645	66,301	52,682	47,925	45,599
Income before taxes.....	48,973	47,721	35,776	29,855	16,496
Income tax expense.....	20,117	20,043	14,310	11,702	7,430
Net income.....	28,856	27,678	21,466	18,153	9,066
COMMON SHARE SUMMARY:					
Basic earnings per share.....	\$ 1.42	\$ 1.43	\$ 1.17	\$ 1.04	\$ 0.55
Diluted earnings per share.....	1.38	1.36	1.11	0.99	0.53
Book value per share.....	10.42	8.75	7.26	5.86	4.54
Weighted average shares outstanding.....	20,268	19,370	18,426	17,494	16,670
Weighted average diluted shares outstanding.....	20,923	20,338	19,382	18,288	17,066
YEAR-END BALANCE SHEET SUMMARY:					
Loans, net of unearned income.....	\$ 1,611,921	\$ 1,174,645	\$ 863,492	\$ 738,405	\$ 703,809
Assets.....	3,545,452	2,625,123	1,924,544	1,407,587	1,161,539
Deposits.....	3,269,753	2,432,407	1,774,304	1,290,060	1,075,373
Shareholders' equity.....	215,865	174,481	135,400	104,974	77,257
AVERAGE BALANCE SHEET SUMMARY:					
Loans, net of unearned income.....	\$ 1,318,826	\$ 973,637	\$ 779,655	\$ 681,255	\$ 592,759
Assets.....	2,990,548	2,140,630	1,573,903	1,165,004	956,336
Deposits.....	2,746,041	1,973,118	1,441,360	1,060,333	877,787
Shareholders' equity.....	198,675	152,118	119,788	91,710	73,461
CAPITAL RATIOS:					
Total risk-based capital ratio.....	11.5%	11.5%	11.5%	11.9%	10.1%
Tier 1 risk-based capital ratio.....	10.3%	10.2%	10.2%	10.6%	8.9%
Tier 1 leverage ratio.....	7.6%	7.1%	7.7%	8.0%	8.3%
Average shareholders' equity to average assets.....	6.6%	7.1%	7.6%	7.9%	7.7%
SELECTED FINANCIAL RATIOS:					
Return on average assets.....	1.0%	1.3%	1.4%	1.6%	0.9%
Return on average shareholders' equity.....	14.5%	18.2%	17.9%	19.8%	12.3%
Efficiency ratio.....	53.8%	55.9%	55.9%	60.6%	68.3%
Net interest margin.....	5.2%	5.6%	6.1%	7.1%	7.2%

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 1998 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 1998 of \$28.9 million, compared with net income in 1997 and 1996 of \$27.7 million and \$21.5 million, respectively. Diluted earnings per share totaled \$1.38 in 1998, compared to \$1.36 and \$1.11 in 1997 and 1996, respectively. Return on average equity in 1998 was 14.5%, compared with 18.2% in 1997 and 17.9% in 1996. Return on average assets in 1998 was 1.0%, compared with 1.3% in 1997 and 1.4% in 1996.

The slight increase in net income for 1998, as compared to 1997, was primarily attributable to growth in both net interest income and noninterest income, and was almost entirely offset by a significant increase in the provision for loan losses and an increase in noninterest expense. The increase in net income for 1997, as compared with 1996, was largely due to growth in net interest income, partially offset by an increase in 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, 1998, 1997 and 1996, and are discussed in more detail on the following pages.

YEARS ENDED DECEMBER 31,

	1998	1997	1998 TO 1997 INCREASE	1996	1997 TO 1996 INCREASE (DECREASE)
(DOLLARS IN THOUSANDS)					
Net interest income.....	\$ 146,615	\$ 110,824	\$ 35,791	\$ 87,275	\$ 23,549
Provision for loan losses.....	37,159	10,067	27,092	10,426	(359)
Noninterest income.....	23,162	13,265	9,897	11,609	1,656
Noninterest expense.....	83,645	66,301	17,344	52,682	13,619
Income before income taxes.....	48,973	47,721	1,252	35,776	11,945
Income tax expense.....	20,117	20,043	74	14,310	5,733
Net income.....	\$ 28,856	\$ 27,678	\$ 1,178	\$ 21,466	\$ 6,212

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, 1998, 1997 and 1996.

	YEARS ENDED DECEMBER 31,							
	1998			1997			1996	
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD AND RATE	AVERAGE BALANCE	INTEREST	AVERAGE YIELD AND RATE	AVERAGE BALANCE	INTEREST
	(DOLLARS IN THOUSANDS)							
Interest-earning assets:								
Federal funds sold and securities purchased under agreement to resell (1).....	\$ 396,488	\$ 21,305	5.4%	\$ 312,398	\$ 17,264	5.5%	\$ 244,408	\$ 13,106
Investment securities:								
Taxable.....	1,044,918	61,515	5.9	671,390	40,360	6.0	411,743	23,587
Non-taxable (2).....	78,234	5,034	6.4	33,801	2,320	6.9	8,112	749
Loans: (3), (4), (5)								
Commercial.....	1,157,949	122,708	10.6	858,459	95,304	11.1	658,316	75,750
Real estate construction and term.....	115,743	12,364	10.7	78,311	8,063	10.3	81,358	8,471
Consumer and other.....	45,134	4,064	9.0	36,867	3,473	9.4	39,981	3,672
Total loans.....	1,318,826	139,136	10.6	973,637	106,840	11.0	779,655	87,893
Total interest-earning assets...	2,838,466	226,990	8.0	1,991,226	166,784	8.4	1,443,918	125,335
Cash and due from banks.....	137,096			148,044			126,830	
Allowance for loan losses.....	(40,055)			(37,568)			(30,429)	
Other real estate owned.....	681			1,192			3,582	
Other assets.....	54,360			37,736			30,002	
Total assets.....	\$2,990,548			\$2,140,630			\$1,573,903	
Funding sources:								
Interest-bearing liabilities:								
NOW deposits.....	\$ 18,702	348	1.9	\$ 15,814	308	1.9	\$ 10,256	223
Regular money market deposits.....	338,585	9,189	2.7	345,828	9,368	2.7	312,841	8,460
Bonus money market deposits...	1,487,240	63,155	4.3	895,259	40,885	4.6	588,235	26,312
Time deposits.....	131,530	5,917	4.5	107,742	4,587	4.3	69,975	2,801
Other borrowings.....	66	4	6.0	5	--	5.0	30	2
Total interest-bearing liabilities.....	1,976,123	78,613	4.0	1,364,648	55,148	4.0	981,337	37,798
Portion of noninterest-bearing funding sources.....	862,343			626,578			462,581	
Total funding sources.....	2,838,466	78,613	2.8	1,991,226	55,148	2.8	1,443,918	37,798
Noninterest-bearing funding sources:								
Demand deposits.....	769,984			608,475			460,053	
Other liabilities.....	22,146			15,389			12,725	
Trust preferred securities....	23,620			--			--	
Shareholders' equity.....	198,675			152,118			119,788	
Portion used to fund interest-earning assets.....	(862,343)			(626,578)			(462,581)	
Total liabilities and shareholders' equity.....	\$2,990,548			\$2,140,630			\$1,573,903	
Net interest income and margin.....		\$ 148,377	5.2%		\$ 111,636	5.6%		\$ 87,537
Memorandum: Total deposits.....	\$2,746,041			\$1,973,118			\$1,441,360	
	AVERAGE YIELD AND RATE							
Interest-earning assets:								
Federal funds sold and securities purchased under agreement to resell (1).....		5.4%						
Investment securities:								
Taxable.....		5.7						

Non-taxable (2).....	9.2
Loans: (3), (4), (5)	
Commercial.....	11.5
Real estate construction and term.....	10.4
Consumer and other.....	9.2

Total loans.....	11.3

Total interest-earning assets...	8.7

Cash and due from banks.....	
Allowance for loan losses.....	
Other real estate owned.....	
Other assets.....	
Total assets.....	
Funding sources:	
Interest-bearing liabilities:	
NOW deposits.....	2.2
Regular money market deposits.....	2.7
Bonus money market deposits...	4.5
Time deposits.....	4.0
Other borrowings.....	5.5

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.....	
Trust preferred securities....	
Shareholders' equity.....	
Portion used to fund interest-earning assets.....	
Total liabilities and shareholders' equity.....	
Net interest income and margin.....	6.1%

Memorandum: Total deposits.....	

(1) Includes average interest-bearing deposits in other financial institutions of \$240, \$306 and \$345 in 1998, 1997 and 1996, respectively.

(2) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory rate of 35% in 1998, 1997 and 1996. These adjustments were \$1,762, \$812 and \$262 for the years ended December 31, 1998, 1997 and 1996, respectively.

(3) Average loans include average nonaccrual loans of \$26,158, \$19,681 and \$22,897 in 1998, 1997 and 1996, respectively.

(4) Average loans are net of average unearned income of \$8,299, \$6,922 and \$4,169 in 1998, 1997 and 1996, respectively.

(5) Loan interest income includes loan fees of \$12,935, \$10,567 and \$8,176 in 1998, 1997 and 1996, 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 1998, 1997 and 1996.

	1998 COMPARED TO 1997			1997 COMPARED TO 1996		
	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.....	\$ 4,518	\$ (477)	\$ 4,041	\$ 3,757	\$ 401	\$ 4,158
Investment securities.....	24,765	(896)	23,869	17,269	1,075	18,344
Loans.....	36,418	(4,122)	32,296	21,286	(2,339)	18,947
Increase (decrease) in interest income.....	65,701	(5,495)	60,206	42,312	(863)	41,449
Interest expense:						
NOW deposits.....	54	(14)	40	108	(23)	85
Regular money market deposits.....	(197)	18	(179)	894	14	908
Bonus money market deposits.....	25,138	(2,868)	22,270	14,021	552	14,573
Time deposits.....	1,070	260	1,330	1,608	178	1,786
Other borrowings.....	4	--	4	--	(2)	(2)
Increase (decrease) in interest expense.....	26,069	(2,604)	23,465	16,631	719	17,350
Increase (decrease) in net interest income.....	\$ 39,632	\$ (2,891)	\$ 36,741	\$ 25,681	\$ (1,582)	\$ 24,099

Net interest income, on a fully taxable-equivalent basis, totaled \$148.4 million in 1998, an increase of \$36.8 million, or 32.9%, from the \$111.6 million total in 1997. The increase in net interest income was attributable to a \$60.2 million, or 36.1%, increase in interest income, offset by a \$23.5 million, or 42.5%, increase in interest expense over the comparable prior year period. Net interest income in 1997, on a fully taxable-equivalent basis, increased \$24.1 million, or 27.5%, compared to the \$87.5 million total in 1996. This increase in net interest income was the result of 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.

The \$60.2 million increase in interest income for 1998, as compared to 1997, was the result of a \$65.7 million favorable volume variance, slightly offset by a \$5.5 million unfavorable rate variance. The \$65.7 million favorable volume variance resulted from a \$847.2 million, or 42.5%, 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 \$772.9 million, or 39.2%, from 1997 to 1998. The increase in average interest-earning assets consisted of loans, which increased \$345.2 million, plus a combination of highly liquid, lower-yielding federal funds sold, securities purchased under agreement to resell and investment securities, which collectively increased \$502.0 million, accounting for 59.3% of the total increase in average interest-earning assets.

Average loans increased \$345.2 million, or 35.5%, in 1998 as compared to 1997, resulting in a \$36.4 million favorable volume variance. This growth was widely distributed throughout the loan portfolio, as reflected by increased loan balances in all of the Company's technology, life sciences and special industry niche practices, in specialized lending products, and throughout the Company's loan offices located across the nation.

In December 1998, the Company announced that the Bank had discontinued new loan originations associated with its Religious Financial Resources (RFR) Division. Started in 1995, the Bank had approximately \$175.0 million in outstanding loans to religious organizations, predominantly for construction of buildings for

worship and education, as of December 31, 1998. Competitive changes within the religious organizations market affected the Bank's ability to generate its anticipated loan yield and provide returns that exceed the Company's required return on capital. The credit quality of the RFR portfolio was not a factor in the Company's decision to discontinue new RFR loan origination. Since inception, the Company has not incurred any losses associated with the RFR portfolio. The discontinuation of new RFR loan origination could have an effect on the future loan growth of the Company.

Average investment securities for 1998 increased \$418.0 million, or 59.3%, as compared to 1997, resulting in a \$24.8 million favorable volume variance. The aforementioned strong growth in average deposits exceeded the growth in average loans during 1998, and generated excess funds that were largely invested in U.S. agency securities, collateralized mortgage obligations and municipal securities. The growth in the investment portfolio reflected Management's actions 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 1998 increased a combined \$84.1 million, or 26.9%, over the prior year, resulting in a \$4.5 million favorable volume variance. This increase was largely due to the aforementioned strong growth in average deposits during 1998 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."

Unfavorable rate variances associated with each component of interest-earning assets in 1998 resulted in a decrease in interest income of \$5.5 million as compared to the prior year. Short-term market interest rates declined during the second half of 1998. As a result of this decline, the Company earned lower yields in 1998 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 1998 decreased 40 basis points from 1997, accounting for the remaining \$4.1 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 during the second half of 1998, as a substantial portion of the Company's loans are prime rate-based.

The yield on average interest-earning assets decreased 40 basis points in 1998 from the comparable prior year period. This decrease resulted from a decline in the average yield on loans, largely due to both increased competition and a decline in the Company's prime rate, as well as a continuing shift in the composition of 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 deposits continuing to outpace the growth in the Company's average loans during 1998.

The \$41.4 million increase in interest income for 1997, as compared to 1996, was due to a \$42.3 million favorable volume variance, slightly offset by a \$0.9 million unfavorable rate variance. The \$42.3 million favorable volume variance was attributable to growth in average interest-earning assets, which increased \$547.3 million, or 37.9%, 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 \$531.8 million, or 36.9%, from the comparable 1996 period.

Average loans increased \$194.0 million, or 24.9%, in 1997 as compared to 1996. This year-over-year increase was widely distributed throughout the Company's niches and products, as well as the Company's loan offices located across the nation.

The increase in average investment securities during 1997, as compared to 1996, of \$285.3 million, or 68.0%, was largely invested in U.S. agency securities, U.S. Treasury securities, mortgage-backed securities, and municipal securities. This increase resulted from the aforementioned strong deposit growth in 1997 that exceeded the growth in loans and was the result of Management's decision 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 increased \$68.0 million, or 27.8%, in 1997, and 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 1997, a \$2.3 million unfavorable rate variance associated with loans was partially offset by a combined \$1.4 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 total yield on average interest-earning assets declined 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 agreements 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.

Interest expense in 1998 increased \$23.5 million from 1997. This increase was due to an unfavorable volume variance of \$26.1 million, partially offset by a favorable rate variance of \$2.6 million. The unfavorable volume variance resulted from a \$611.5 million, or 44.8%, increase in average interest-bearing liabilities in 1998 as compared to 1997. This increase was largely concentrated in the Company's bonus money market deposit product, which increased \$592.0 million, or 66.1%, and was explained by high levels of client liquidity attributable to a strong inflow of investment capital into the venture capital community during 1998, and by growth in the number of clients served by the Company.

Changes in the average rates paid on interest-bearing liabilities had a \$2.6 million favorable impact on interest expense in 1998 as compared to 1997. 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 4.6% in 1997 to 4.3% in 1998. The reduction during 1998 in the average rate paid on the Company's bonus money market deposit product was largely attributable to a decline in short-term market interest rates during the second half of 1998.

The average cost of funds paid in 1998 of 2.8% was flat with the prior year. Although the average rate paid on the Company's bonus money market deposit product decreased during 1998 as compared to 1997, this was offset by a continuing shift in the composition of average interest-bearing liabilities towards a higher percentage of deposits in that product.

The increase in interest expense for 1997 of \$17.3 million, as compared to 1996, 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 primarily related to the Company's bonus money market deposit product, which increased \$307.0 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 1997 in the number of clients served by the Company. The year-over-year \$0.7 million unfavorable rate variance was largely attributable 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 a shift in the composition of interest-bearing liabilities towards a higher percentage of deposits in the bonus money market deposit product.

In 1997, the average cost of funds paid increased to 2.8%, up from 2.6% in 1996. This increase was attributable to both an increase in the average rate paid on the Company's bonus money market deposit product in response to 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.

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 \$37.2 million in 1998, a significant increase compared to \$10.1 million and \$10.4 million in 1997 and 1996, respectively. The large increase in the Company's provision for loan losses in 1998 was in response to the Company incurring \$28.9 million in net charge-offs in 1998, versus \$5.1 million and \$7.4 million in 1997 and 1996, 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,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Letter of credit and foreign exchange income.....	\$ 7,397	\$ 4,512	\$ 3,423
Disposition of client warrants.....	6,657	5,480	5,389
Investment gains.....	5,240	90	1
Deposit service charges.....	1,730	1,772	1,663
Other.....	2,138	1,411	1,133
Total noninterest income.....	\$ 23,162	\$ 13,265	\$ 11,609

Noninterest income increased \$9.9 million, or 74.6%, in 1998 as compared to 1997. This increase was largely due to a \$5.2 million increase in investment gains, coupled with a \$2.9 million increase in letter of credit fees, foreign exchange fees and other trade finance income and a \$1.2 million increase in income from the disposition of client warrants. 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.

Letter of credit fees, foreign exchange fees and other trade finance income totaled \$7.4 million in 1998, an increase of \$2.9 million, or 63.9%, from the \$4.5 million total in 1997, and an increase of \$4.0 million, or 116.1%, from the \$3.4 million total in 1996. 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 from the disposition of client warrants totaled \$6.7 million, \$5.5 million and \$5.4 million in 1998, 1997 and 1996, 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. Therefore income from the disposition of client warrants cannot be predicted with any degree of accuracy and is likely to vary materially from period to period. During the years ended December 31, 1998, 1997 and 1996, a significant portion of the income 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 was also offset by increases to 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.

The Company realized \$5.2 million in gains on sales of investment securities during 1998, compared to \$0.1 million in gains on sales of investment securities during 1997, and a nominal gain on sales of investment securities during 1996. The book value of securities sold during 1998 totaled \$433.3 million and primarily consisted of U.S. Treasury securities, U.S. agency securities, mortgage-backed securities, and collateralized mortgage obligations. 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.

Income related to deposit service charges totaled \$1.7 million, \$1.8 million and \$1.7 million in 1998, 1997 and 1996, 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.

Other noninterest income is largely composed of service-based fee income, and totaled \$2.1 million in 1998, compared to \$1.4 million in 1997 and \$1.1 million in 1996, respectively. The increase in 1998, as compared to 1997 and 1996, was primarily due to a higher volume of cash management and loan documentation services related to the Company's growing client base.

NONINTEREST EXPENSE

Noninterest expense in 1998 totaled \$83.6 million, a \$17.3 million, or 26.2%, increase from 1997. Total noninterest expense was \$66.3 million in 1997, up \$13.6 million, or 25.9%, from 1996. 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 53.8% for 1998, down from 55.9% for both 1997 and 1996. 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,					
	1998		1997		1996	
	AMOUNT	PERCENT OF ADJUSTED REVENUES	AMOUNT	PERCENT OF ADJUSTED REVENUES	AMOUNT	PERCENT OF ADJUSTED REVENUES
	(DOLLARS IN THOUSANDS)					
Compensation and benefits.....	\$ 44,232	28.0%	\$ 40,084	33.8%	\$ 31,417	33.6%
Professional services.....	9,876	6.3	6,710	5.7	4,987	5.3
Furniture and equipment.....	6,667	4.2	3,620	3.1	3,239	3.5
Business development and travel.....	6,025	3.8	4,514	3.8	2,918	3.1
Net occupancy expense.....	5,195	3.3	3,410	2.9	3,095	3.3
Postage and supplies.....	2,225	1.4	1,600	1.3	1,448	1.5
Advertising and promotion.....	2,215	1.4	1,448	1.2	1,183	1.3
Telephone.....	2,157	1.4	1,444	1.2	1,277	1.4
Trust preferred securities distributions.....	2,012	1.3	--	--	--	--
Other.....	4,255	2.7	3,395	2.9	2,720	2.9
Total, excluding cost of other real estate owned.....	84,859	53.8%	66,225	55.9%	52,284	55.9%
Cost of other real estate owned.....	(1,214)		76		398	
Total noninterest expense.....	\$ 83,645		\$ 66,301		\$ 52,682	

Compensation and benefits expenses totaled \$44.2 million in 1998, a \$4.1 million, or 10.4%, increase over the \$40.1 million incurred in 1997. This increase was largely the result of an increase in the number of average full-time equivalent (FTE) personnel employed by the Company, from 417 in 1997 to 521 in 1998, partially offset by a decrease in variable-based compensation expenses associated with the Company's incentive bonus pool and employee stock ownership plan due to lower than expected net income. Compensation and benefits

expenses in 1997 increased \$8.7 million, or 27.6%, from the \$31.4 million total in 1996. The increase in compensation and benefits expenses in 1997 was primarily the result of an increase in the number of average FTE employed by the Company. Average FTE were 417 in 1997 compared with 363 in 1996. The increase in FTE from 1996 through 1998 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 FTE is likely to occur during future years as a result of the continued expansion of the Company's business activities.

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 \$9.9 million in 1998, a \$3.2 million, or 47.2%, increase from the \$6.7 million total in 1997. The Company incurred \$5.0 million in professional services expenses in 1996. The increase in professional services expenses in 1998, as compared to 1997 and 1996, primarily related to an increase in both consulting fees associated with several business initiatives, including the Year 2000 remediation project, and legal fees primarily related to loan consultations and the workout of various commercial credits. The level of professional services expenses during the past three years further 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. It 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.

Occupancy, furniture and equipment expenses totaled \$11.9 million in 1998, \$7.0 million in 1997 and \$6.3 million in 1996. The increase in occupancy, furniture and equipment expenses in 1998, as compared to 1997 and 1996, was largely attributable to the Company incurring certain non-recurring costs in connection with the expansion of its existing headquarters facility during the second quarter of 1998 and an increase in recurring expenses associated with that additional office space. Occupancy, furniture and equipment expenses were also impacted by costs related to furniture, computer equipment and other related costs associated with the Company opening new loan offices in West Los Angeles, California and Rosemont, Illinois in early 1998. The Company intends to continue its geographic expansion into other emerging technology marketplaces across the U.S. during future years as opportunities to serve new markets arise.

Business development and travel expenses totaled \$6.0 million in 1998, an increase of \$1.5 million, or 33.5%, compared to the \$4.5 million total in 1997. The Company incurred \$2.9 million in business development and travel expenses in 1996. 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.

Postage and supplies expenses totaled \$2.2 million, \$1.6 million and \$1.4 million in 1998, 1997 and 1996, respectively. Total telephone expenses were \$2.2 million in 1998, \$1.4 million in 1997 and \$1.3 million in 1996. 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 \$2.2 million in 1998, \$1.4 million in 1997 and \$1.2 million in 1996. The increase in advertising and promotion expenses in 1998, compared to 1997 and 1996, reflects a concerted effort by the Company to increase its marketing efforts nationwide.

Trust preferred securities distributions totaled \$2.0 million in 1998 and resulted from the issuance of \$40.0 million in cumulative trust preferred securities during the second quarter of 1998. The trust preferred securities pay a fixed rate quarterly distribution of 8.25% and have a maximum maturity of 30 years. For further discussion related to the trust preferred securities, see the Item 7 sections entitled "Liquidity" and "Capital Resources."

Other noninterest expenses totaled \$4.3 million, \$3.4 million and \$2.7 million in 1998, 1997 and 1996, respectively. The increase in other noninterest expenses in 1998 of \$0.9 million, as compared to 1997, was primarily due to an increase in data processing costs related to both the aforementioned overall growth in the Company's business and several new business initiatives begun in 1998. In addition, there was an increase in costs associated with certain vendor provided services resulting from growth in the Company's client base.

The \$0.7 million increase in other noninterest expenses from 1996 to 1997 was largely due to expenses associated with both 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 Company realized a net gain of \$1.3 million in connection with the sale of an other real estate owned (OREO) property during 1998. In 1997, the Company incurred minimal net costs associated with OREO, and in 1996, \$0.4 million in net OREO-related costs were incurred, primarily due to the write-down 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.

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.

INCOME TAXES

The Company's effective income tax rate was 41.1% in 1998, compared to 42.0% in 1997 and 40.0% in 1996. The slight decrease in the Company's effective income tax rate for 1998, as compared to 1997, was attributable to an increase in the amount of tax-exempt interest income received by the Company. The increase in the Company's effective income tax rate from 1996 to 1997, was due to adjustments in the Company's estimate of its income tax liabilities.

FINANCIAL CONDITION

The Company's total assets were \$3.5 billion at December 31, 1998, an increase of \$920.3 million, or 35.1%, compared to \$2.6 billion at December 31, 1997.

FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Federal funds sold and securities purchased under agreement to resell totaled a combined \$399.2 million at December 31, 1998, an increase of \$77.4 million, or 24.1%, compared to the \$321.8 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 1998 which exceeded the growth in loans, in these types of short-term, liquid 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, 1998, 1997 and 1996.

	DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
U.S. Treasury securities.....	\$ 41,049	\$ 217,685	\$ 75,547
U.S. agencies and corporations:			
Discount notes and bonds.....	498,016	462,405	298,488
Mortgage-backed securities.....	125,059	144,437	8,168
Collateralized mortgage obligations.....	155,149	41,051	58,038
Obligations of states and political subdivisions.....	515,770	60,436	22,787
Commercial paper.....	9,993	41,829	143,086
Bankers' acceptances.....	--	16,140	--
Other debt securities.....	38,471	25,007	13,000
Other equity securities.....	13,995	4,914	5,908
Total.....	\$ 1,397,502	\$ 1,013,904	\$ 625,022

Investment securities totaled \$1.4 billion at December 31, 1998. This represented a \$383.6 million, or 37.8%, increase over the December 31, 1997 balance of \$1.0 billion. This increase resulted from excess funds that were generated by strong growth in the Company's deposits outpacing the growth in loans during 1998, and primarily consisted of U.S. agency securities, collateralized mortgage obligations and municipal securities. The significant increase in municipal securities was composed of both taxable and non-taxable municipal obligations, and was largely attributable to the Company obtaining slightly higher yields on these investments as compared to U.S. agency discount notes and bonds and other short-term securities. The decreases in U.S. Treasury securities, mortgage-backed securities and commercial paper was primarily due to sales and maturities. The overall growth in the investment portfolio reflected Management's actions to increase as well as to further diversify the Company's portfolio of short-term investments in response to a continued significant increase in liquidity.

At December 31, 1998, 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, 1998. 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, Federal Reserve Bank stock, investments in tax credit funds, and venture capital investments, were included in the table below as maturing after ten years.

DECEMBER 31, 1998							
	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.....	\$ 41,049	5.1%	\$ 41,049	5.1%	--	--	--
U.S. agencies and corporations:							
Discount notes and bonds.....	498,016	5.6	241,665	5.3	\$ 256,351	6.0%	--
Mortgage-backed securities.....	125,059	6.4	--	--	--	--	--
Collateralized mortgage obligations.....	155,149	6.6	--	--	12,397	6.3	\$ 17,502
Obligations of states and political subdivisions.....	515,770	5.7	427,034	5.5	17,083	6.5	71,653
Commercial paper.....	9,993	5.2	9,993	5.2	--	--	--
Other debt securities.....	38,471	5.8	22,000	5.8	4,429	5.6	12,042
Other equity securities...	13,995	--	--	--	--	--	--
	--	--	--	--	--	--	--
Total.....	\$1,397,502	5.8%	\$ 741,741	5.4%	\$ 290,260	6.0%	\$ 101,197
	--	--	--	--	--	--	--
	--	--	--	--	--	--	--

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.....	--	\$ 125,059	6.4%
Collateralized mortgage obligations.....	6.7%	125,250	6.6
Obligations of states and political subdivisions.....	5.7	--	--
Commercial paper.....	--	--	--
Other debt securities.....	6.0	--	--
Other equity securities...	--	13,995	--

	--	-----	--
Total.....	5.9%	\$ 264,304	6.1%
	--	-----	--
	--	-----	--

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,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
Commercial.....	\$ 1,429,980	\$ 1,051,218	\$ 755,699	\$ 622,488	\$ 613,469
Real estate construction.....	74,023	53,583	27,540	17,194	10,512
Real estate term.....	60,841	33,395	44,475	56,845	58,977
Consumer and other.....	47,077	36,449	35,778	41,878	20,851
Total loans.....	\$ 1,611,921	\$ 1,174,645	\$ 863,492	\$ 738,405	\$ 703,809

Total loans at December 31, 1998, net of unearned income, were \$1.6 billion, representing a \$437.3 million, or 37.2%, increase compared to the \$1.2 billion outstanding at December 31, 1997. The increase in loans from the 1997 year-end total was widely distributed throughout the loan portfolio, as evidenced by increased loan balances in all of the Company's market niches, specialized lending products and loan offices.

In December 1998, the Company announced that the Bank had discontinued new loan originations associated with its Religious Financial Resources (RFR) Division. Started in 1995, the Bank had approximately \$175.0 million in outstanding loans to religious organizations, predominantly for construction of buildings for worship and education, as of December 31, 1998. Competitive changes within the religious organizations market affected the Bank's ability to generate its anticipated loan yield and provide returns that exceed the Company's required return on capital. The credit quality of the RFR portfolio was not a factor in the Company's decision to discontinue new RFR loan origination. Since inception, the Company has not incurred any losses associated with the RFR portfolio. The discontinuation of new RFR loan origination could have an effect on the future loan growth of the Company.

The following table sets forth the remaining contractual maturity distribution of the Company's loans (reported on a gross basis) at December 31, 1998 for fixed and variable rate commercial and real estate construction loans:

	DECEMBER 31, 1998			
	ONE YEAR OR LESS	AFTER ONE YEAR AND THROUGH FIVE YEARS	AFTER FIVE YEARS	TOTAL
	(DOLLARS IN THOUSANDS)			
Fixed rate loans:				
Commercial.....	\$ 45,023	\$ 156,087	\$ 151,074	\$ 352,184
Real estate construction.....	--	12,217	--	12,217
Total fixed rate loans.....	\$ 45,023	\$ 168,304	\$ 151,074	\$ 364,401
Variable rate loans:				
Commercial.....	\$ 691,952	\$ 370,994	\$ 23,896	\$ 1,086,842
Real estate construction.....	59,485	2,439	564	62,488
Total variable rate loans.....	\$ 751,437	\$ 373,433	\$ 24,460	\$ 1,149,330

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, 1998, only one industry sector (as identified by Standard Industrial Codes) represented more than 10.0% of the Company's loan portfolio. The Religious Financial Resources Division, in which new loan originations were

discontinued in December 1998, represented 10.6% of the Company's total loan portfolio as of December 31, 1998.

Management of the Company has continued to evaluate both the economic events occurring in Asia during 1998 and the forecasts for the U.S. economy for 1999, in an effort to determine the impact on the markets the Company serves. Now a full year after commencement of the Asian economic crisis, the Company has determined it has no direct exposure to the crisis. Only one borrowing client has been critically affected by the Asian economic crisis and that asset has been written down to reflect the perceived exposure. The outlook for the U.S. economy in 1999 is uncertain and although 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, Management has decided to bolster the allowance for loan losses. Future events and circumstances surrounding the economic conditions in the U.S. and 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, certain 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 senior lenders or jointly with a loan administrator.

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,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
Balance at January 1,.....	\$ 37,700	\$ 32,700	\$ 29,700	\$ 20,000	\$ 25,000
Charge-offs:					
Commercial.....	(31,123)	(9,236)	(9,056)	(4,248)	(10,913)
Real estate.....	--	--	(634)	(653)	(495)
Consumer and other.....	--	--	(38)	(57)	--
Total charge-offs.....	(31,123)	(9,236)	(9,728)	(4,958)	(11,408)
Recoveries:					
Commercial.....	1,897	3,170	2,050	3,106	2,398
Real estate.....	366	986	217	2,815	923
Consumer and other.....	1	13	35	--	--
Total recoveries.....	2,264	4,169	2,302	5,921	3,321
Net (charge-offs) recoveries.....	(28,859)	(5,067)	(7,426)	963	(8,087)
Provision for loan losses.....	37,159	10,067	10,426	8,737	3,087
Balance at December 31,.....	\$ 46,000	\$ 37,700	\$ 32,700	\$ 29,700	\$ 20,000
Net charge-offs (recoveries) to average total loans.....	2.2%	0.5%	1.0%	(0.1)%	1.4%

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

	DECEMBER 31,						
	1998		1997		1996		1995
	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT
	(DOLLARS IN THOUSANDS)						
Commercial.....	\$ 28,417	95.8%	\$ 30,394	89.5%	\$ 18,716	87.5%	\$ 16,176
Real estate term.....	438	1.4	426	2.8	873	5.2	707
Real estate construction.....	374	1.3	274	4.6	140	3.2	87
Consumer and other.....	434	1.5	386	3.1	615	4.1	339
Unallocated.....	16,337	N/A	6,220	N/A	12,356	N/A	12,391
Total.....	\$ 46,000	100.0%	\$ 37,700	100.0%	\$ 32,700	100.0%	\$ 29,700
	1994						
	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS				
Commercial.....	84.3%	\$ 12,748	87.2%				
Real estate term.....	7.7	765	8.4				
Real estate construction.....	2.4	345	1.4				
Consumer and other.....	5.6	312	3.0				
Unallocated.....	N/A	5,830	N/A				

Total.....	100.0%	\$ 20,000	100.0%
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The allowance for loan losses totaled \$46.0 million at December 31, 1998, an increase of \$8.3 million, or 22.0%, compared to \$37.7 million at December 31, 1997. This increase was due to \$37.2 million in additional provisions to the allowance for loan losses, offset by net charge-offs of \$28.9 million during 1998. The 1998

net charge-off amount was composed of \$31.1 million in gross charge-offs and \$2.3 million in gross recoveries.

The 1998 gross charge-off total included \$17.4 million and \$7.2 million in charge-offs that were incurred during the third and fourth quarters of 1998, respectively. Gross charge-offs for the third quarter of 1998, the largest of which was \$7.0 million, were primarily related to five commercial credits and were not concentrated in any particular niche or industry. Of the total 1998 third quarter gross charge-offs, \$8.1 million were classified as nonperforming loans at the end of 1997, while \$8.7 million were disclosed in the Company's 1998 second quarter 10-Q as having a higher than normal risk of becoming nonperforming loans during the third quarter of 1998.

The Company incurred \$7.2 million in gross charge-offs during the fourth quarter of 1998, primarily centered in the Company's QuickStart and bridge portfolios. Gross charge-offs in the fourth quarter of 1998 included three bridge loans and four QuickStart loans totaling \$2.5 million and \$1.9 million, respectively. The Company's QuickStart product is based in large part on an analysis that indicates that almost all venture capital-backed clients that receive a first round of equity infusion from a venture capitalist will receive a second round. The analysis indicated that the second round typically occurred 18 months after the first round. Hence, proceeds from the second round could be used to pay off the 18 month term loan offered under the QuickStart product. However, the second round has been occurring much sooner than expected and the additional cash infusion has occasionally been depleted before 18 months. The likelihood of a third round occurring is not as great as a second round and thus this has resulted in higher than anticipated charge-offs related to this product during the fourth quarter of 1998.

The unallocated component of the allowance for loan losses as of December 31, 1998 increased \$10.1 million, or 162.7%, from the prior year end. This increase reflects Management's decision to further bolster the allowance for loan losses and maintain strong coverage ratios based on the economic uncertainty surrounding many of the Company's markets in 1999 and the higher than normal charge-offs experienced during the third and fourth quarters of 1998.

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.

In general, Management believes the allowance for loan losses is adequate as of December 31, 1998. 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. During 1998, 1997 and 1996, the Company's nonaccrual loans represented all impaired loans. Loans placed on nonaccrual status were measured by the Company for impairment based on the fair value of the underlying collateral or the net present value of the expected cash flows in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

	DECEMBER 31,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
Nonperforming assets:					
Loans past due 90 days or more.....	\$ 441	\$ 1,016	\$ 8,556	\$ 906	\$ 444
Nonaccrual loans (1).....	19,444	24,476	14,581	27,867	11,269
Total nonperforming loans.....	19,885	25,492	23,137	28,773	11,713
OREO and other foreclosed assets (1).....	1,800	1,858	1,948	4,955	7,089
Total nonperforming assets.....	\$ 21,685	\$ 27,350	\$ 25,085	\$ 33,728	\$ 18,802
Nonperforming loans as a percent of total loans.....	1.2%	2.2%	2.7%	3.9%	1.7%
OREO and other foreclosed assets as a percent of total assets.....	0.1%	0.1%	0.1%	0.4%	0.6%
Nonperforming assets as a percent of total assets.....	0.6%	1.0%	1.3%	2.4%	1.6%
Allowance for loan losses.....	\$ 46,000	\$ 37,700	\$ 32,700	\$ 29,700	\$ 20,000
As a percent of total loans.....	2.8%	3.2%	3.8%	4.0%	2.8%
As a percent of nonaccrual loans.....	236.6%	154.0%	224.3%	106.6%	177.5%
As a percent of nonperforming loans.....	231.3%	147.9%	141.3%	103.2%	170.8%

(1) In accordance with SFAS No. 114, in-substance foreclosure loans have been reclassified from OREO to nonaccrual loans. The reclassified amount is \$1,377 at December 31, 1994.

The detailed composition of nonaccrual loans is presented in the following table. There were no real estate construction or term loans on nonaccrual status at December 31, 1998 and 1997.

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Commercial.....	\$ 18,979	\$ 24,127
Consumer and other.....	465	349
Total nonaccrual loans.....	\$ 19,444	\$ 24,476

Nonperforming loans totaled \$19.9 million at December 31, 1998, a decrease of \$5.6 million, or 22.0%, from the \$25.5 million total at December 31, 1997. Of the total nonperforming loans at year-end 1997, \$10.0 million were charged off, \$7.4 million were placed on performing status and \$4.8 million were repaid during 1998. Additionally, \$16.6 million in loans were placed on nonperforming status during 1998 and still classified as nonperforming loans at the end of 1998.

Nonperforming loans at December 31, 1997 totaled \$25.5 million, 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 primarily due to two commercial credits totaling approximately \$14.1 million which were placed on nonaccrual status during the last half of 1997, one of which was returned to performing status in the first quarter of 1998 and the other was partially charged off in 1998, with the remaining balance still in nonperforming. 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.

In addition to the loans disclosed in the foregoing analysis, Management has identified three loans with principal amounts aggregating approximately \$11.1 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 \$1.8 million and \$1.9 million at December 31, 1998 and 1997, respectively. The OREO and other foreclosed assets balance at December 31, 1998 consisted of one OREO property and one other asset which was acquired through foreclosure. The OREO property consists of multiple undeveloped lots and was acquired by the Company prior to June 1993. The one other asset acquired through foreclosure, which totaled \$1.1 million at December 31, 1998, consists of a favorable leasehold right under a master lease which the Company acquired upon foreclosure of a loan during 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,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
Noninterest-bearing demand.....	\$ 921,790	\$ 788,442	\$ 599,257	\$ 451,318	\$ 401,455
NOW.....	19,978	21,348	8,443	10,956	11,636
Regular money market.....	350,110	351,921	326,661	288,619	328,115
Bonus money market.....	1,835,249	1,146,075	754,730	473,717	245,420
Time.....	142,626	124,621	85,213	65,450	88,747
Total deposits.....	\$ 3,269,753	\$ 2,432,407	\$ 1,774,304	\$ 1,290,060	\$ 1,075,373

Total deposits were \$3.3 billion at December 31, 1998, an increase of \$837.3 million, or 34.4%, from the prior year-end total of \$2.4 billion. A significant portion of the increase in deposits during 1998 was concentrated in the Company's highest-rate paying deposit product, its bonus money market deposit product, which increased \$689.2 million, or 60.1%, and in the Company's noninterest-bearing demand deposits, which increased \$133.3 million, or 16.9%, from the prior year end. Increased balances during 1998 in most 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 1998 in the number of clients served by the Company.

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$122.8 million and \$110.4 million at December 31, 1998 and 1997, respectively. At December 31, 1998, 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.

YEAR 2000 READINESS DISCLOSURE

The Federal Financial Institutions Examination Council (FFIEC), an oversight authority for financial institutions, has issued several interagency statements on Year 2000 project awareness. These statements require financial institutions to, among other things, examine the Year 2000 implications of their reliance on vendors, determine the potential impact of the Year 2000 issue on their customers, suppliers and borrowers, and to survey its exposure, measure its risk and prepare a plan to address the Year 2000 issue. In addition, federal banking regulators have issued safety and soundness guidelines to be followed by financial institutions to assure resolution of any Year 2000 problems. The federal banking agencies have asserted that Year 2000 testing and certification is a key safety and soundness issue in conjunction with regulatory examinations, and the failure to appropriately address the Year 2000 issue could result in supervisory action, including the

reduction of the institution's supervisory ratings, the denial of applications for mergers or acquisitions, or the imposition of civil monetary penalties.

The Company, following an initial awareness phase, is utilizing a three-phase plan for achieving Year 2000 readiness. The Assessment Phase was intended to determine which computers, operating systems and applications require remediation and prioritizing those remediation efforts by identifying mission critical systems. The Assessment Phase has been completed except for the on-going assessment of new systems. The Remediation and Testing Phase addressed the correction or replacement of any non-compliant hardware and software related to the mission critical systems and testing of those systems. Since most of the Bank's information technology systems are off-the-shelf software, remediation efforts have focused on obtaining Year 2000 compliant application upgrades. The Bank's core banking system, which runs loans, deposits and the general ledger, has been upgraded to the Year 2000 compliant version and has been forward date tested and Year 2000 certified by the Bank. The Year 2000 releases for all of the Bank's other internal mission critical systems have also been received, forward date tested and certified. The next step of this phase, testing mission critical service providers, is anticipated to be substantially completed by March 31, 1999. During the final phase, the Implementation Phase, remediated and validated code will be tested in interfaces with customers, business partners, government institutions, and others. It is anticipated that the Implementation Phase will be substantially completed by June 30, 1999.

The Company may be impacted by the Year 2000 compliance issues of governmental agencies, businesses and other entities who provide data to, or receive data from, the Company, and by entities, such as borrowers, vendors, customers, and business partners, whose financial condition or operational capability is significant to the Company. Therefore, the Company's Year 2000 project also includes assessing the Year 2000 readiness of certain customers, borrowers, vendors, business partners, counterparties, and governmental entities. In addition to assessing the readiness of these external parties, the Company is developing contingency plans which will include plans to recover operations and alternatives to mitigate the effects of counterparties whose own failure to properly address Year 2000 issues may adversely impact the Company's ability to perform certain functions. These contingency plans are currently being developed and are expected to be substantially completed by June 30, 1999.

If Year 2000 issues are not adequately addressed by the Company and significant third parties, the Company's business, results of operations and financial position could be materially adversely affected. Failure of certain vendors to be Year 2000 compliant could result in disruption of important services upon which the Company depends, including, but not limited to, such services as telecommunications, electrical power and data processing. Failure of the Company's loan customers to properly prepare for the Year 2000 could also result in increases in problem loans and credit losses in future years. It is not, however, possible to quantify the potential impact of any such losses at this time. Notwithstanding the Company's efforts, there can be no assurance that the Company or significant third party vendors or other significant third parties will adequately address their Year 2000 issues. The Company is continuing to assess the Year 2000 readiness of third parties but does not know at this time whether the failure of third parties to be Year 2000 compliant will have a material effect on the Company's results of operations, liquidity and financial condition.

The Company currently estimates that its total cost for the Year 2000 project will approximate \$3.0 million. During 1998, the Company incurred \$1.5 million in charges related to its Year 2000 remediation effort and expects to incur \$1.5 million in 1999. Charges include the cost of external consulting and the cost of accelerated replacement of hardware, but do not include the cost of internal staff redeployed to the Year 2000 project. The Company does not believe that the redeployment of internal staff will have a material impact on its financial condition or results of operations.

The foregoing paragraphs contain a number of forward-looking statements. These statements reflect Management's best current estimates, which were based on numerous assumptions about future events, including the continued availability of certain resources, representations received from third party service providers and other factors. There can be no guarantee that these estimates, including Year 2000 costs, will be achieved, and actual results could differ materially from those estimates. A number of important factors could cause Management's estimates and the impact of the Year 2000 issue to differ materially from what is described in the forward-looking statements contained in the above paragraphs. Those factors include, but are not limited to, the availability and cost of programmers and other systems personnel, inaccurate or incomplete

execution of the phases, results of Year 2000 testing, adequate resolution of Year 2000 issues by the Company's customers, vendors, competitors, and counterparties, and similar uncertainties.

The forward-looking statements made in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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. At December 31, 1998, the Company held one such off-balance sheet derivative transaction in the form of an interest rate swap for a notional principal amount of \$150 million to mature on November 29, 1999. This transaction was entered into as part of the Company's normal interest rate risk management process. See "Item 8. Financial Statements and Supplementary Data--Note 14 to the Consolidated Financial Statements--Financial Instruments With Off-Balance Sheet Risk" for additional related discussion.

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, 1998 indicates that the Company was positioned within these guidelines as the cumulative one-year gap as a percentage of interest-earning assets was 6.6%. The following table illustrates the Company's interest rate sensitivity gap positions at December 31, 1998.

**INTEREST RATE SENSITIVITY ANALYSIS AS OF
DECEMBER 31, 1998**

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
(DOLLARS IN THOUSANDS)							
INTEREST-EARNING ASSETS:							
Federal funds sold and securities purchased under agreement to resell (1).....	--	\$ 399,202	--	--	--	--	--
Investment securities:							
U.S.Treasury and agencies obligations.....	--	199,363	\$ 25,117	\$ 11,078	\$ 47,156	\$ 256,351	--
Collateralized mortgage obligations and mortgage-backed securities (2).....	--	44,242	19,714	32,140	49,365	129,910	\$ 4,837
Obligations of states and political subdivisions.....	--	337,029	72,600	9,983	7,422	17,083	71,653
Commercial paper and other debt securities.....	--	16,993	15,000	4,429	--	--	12,042
Other equity securities (3)...	--	--	--	--	--	--	--
Total investment securities.....	--	597,627	132,431	57,630	103,943	403,344	88,532
Loans (4), (5).....	\$1,124,236	11,472	16,155	72,776	56,053	252,388	60,592
Total Interest-Earning Assets...	\$1,124,236	\$1,008,301	\$ 148,586	\$ 130,406	\$ 159,996	\$ 655,732	\$ 149,124
FUNDING SOURCES:							
Money market and NOW deposits.....	--	\$2,205,337	--	--	--	--	--
Time deposits.....	--	84,246	\$ 26,066	\$ 13,534	\$ 18,620	\$ 160	--
Total interest-bearing deposits.....	--	2,289,583	26,066	13,534	18,620	160	--
Trust preferred securities.....	--	--	--	--	--	--	\$ 38,485
Portion of noninterest-bearing funding sources.....	--	--	--	--	--	--	--
Total Funding Sources.....	--	\$2,289,583	\$ 26,066	\$ 13,534	\$ 18,620	\$ 160	\$ 38,485
OFF-BALANCE SHEET ITEMS:							
Interest rate swap.....	\$ (150,000)	--	--	--	\$ 150,000	--	--
GAP.....	\$ 974,236	\$(1,281,282)	\$ 122,520	\$ 116,872	\$ 291,376	\$ 655,572	\$ 110,639
CUMULATIVE GAP.....	\$ 974,236	\$(307,046)	\$(184,526)	\$ (67,654)	\$ 223,722	\$ 879,294	\$ 989,933

	NOT STATED	TOTAL
INTEREST-EARNING ASSETS:		
Federal funds sold and securities purchased under agreement to resell (1).....	--	\$ 399,202
Investment securities:		
U.S.Treasury and agencies obligations.....	--	539,065
Collateralized mortgage obligations and mortgage-backed securities (2).....	--	280,208
Obligations of states and political subdivisions.....	--	515,770
Commercial paper and other debt securities.....	--	48,464
Other equity securities (3)...	\$ 13,995	13,995
Total investment securities.....	13,995	1,397,502
Loans (4), (5).....	18,249	1,611,921
Total Interest-Earning Assets...	\$ 32,244	\$3,408,625

FUNDING SOURCES:		
Money market and NOW deposits.....	--	\$2,205,337
Time deposits.....	--	142,626
	-----	-----
Total interest-bearing deposits.....	--	2,347,963
Trust preferred securities.....	--	38,485
Portion of noninterest-bearing funding sources.....	\$1,022,177	1,022,177
	-----	-----
Total Funding Sources.....	\$1,022,177	\$3,408,625
	-----	-----
OFF-BALANCE SHEET ITEMS:		
Interest rate swap.....	--	--
	-----	-----
GAP.....	\$(989,933)	--
CUMULATIVE GAP.....	--	--

(1) Includes interest-bearing deposits in other financial institutions of \$202 as of December 31, 1998.

(2) Principal cash flows are based on estimated principal payments as of December 31, 1998.

(3) Not stated column consists of equity securities, tax credit funds, venture capital investments, and Federal Reserve Bank stock as of December 31, 1998.

(4) Not stated column consists of nonaccrual loans of \$19,444 and overdrafts of \$8,807, offset by unearned income of \$10,003 as of December 31, 1998.

(5) Maturity/repricing columns for fixed rate loans are based upon the amount and timing of related principal payments as of December 31, 1998.

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, 1998, 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, 1998 and December 31, 1997 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, 1998:			
+200	\$ 211,016	\$ (26,635)	(11.2)%
+100	223,368	(14,283)	(6.0)
--	237,651	--	--
-100	249,595	11,944	5.0
-200	260,655	23,004	9.7
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

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, 1998, 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, 1998 indicated that 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, 1998, the Bank's ratio of liquid assets to total deposits was 52.5%. This ratio is well in excess of the Bank's minimum policy guidelines and is slightly higher than the comparable ratio of 52.1% as of December 31, 1997. 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, 1998 and 1997, the Bank was in compliance with all of these policy measures.

In analyzing the Company's liquidity during 1998, reference is made to the Company's consolidated statement of cash flows for the year ended December 31, 1998 (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 \$28.9 million for 1998, 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 \$371.9 million, and the net change in total loans resulting from loan originations and principal collections, which resulted in a net cash outflow of \$470.4 million in 1998. Financing activities reflected the net change in the Company's total deposits, which increased \$837.3 million during 1998, cash proceeds received during the year from the issuance of Company common stock of \$5.7 million, and \$38.5 million in cash proceeds received in May 1998 from the issuance of the cumulative trust preferred securities. In total, the transactions noted above resulted in a net cash inflow of

\$95.4 million for 1998 and total cash and cash equivalents, as defined in the Company's consolidated statement of cash flows, of \$522.2 million at December 31, 1998.

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.

Additionally, during the second quarter of 1998 the Company issued \$40.0 million in cumulative trust preferred securities through a newly formed special-purpose trust, SVB Capital I. The securities had an offering price (liquidation amount) of \$25 per security and distributions at a fixed rate of 8.25% are paid by the Company quarterly. The securities have a maximum maturity of 30 years and qualify as Tier 1 capital under the capital guidelines of the Federal Reserve Board. The Company received proceeds of \$38.5 million related to the sale of these securities, net of underwriting commissions and other offering expenses. The proceeds are being used by the Company for general corporate purposes, which may include, without limitation, investments in liquid government and corporate debt securities, and investments in venture capital funds. The trust preferred securities are presented as a separate line item in the consolidated balance sheet of the Company under the caption "Company obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely junior subordinated debentures." For additional related discussion, see "Item 8. Financial Statements and Supplementary Data--Note 9 to the Consolidated Financial Statements--Trust Preferred Securities."

Shareholders' equity totaled \$215.9 million at December 31, 1998, an increase of \$41.4 million, or 23.7%, from the \$174.5 million balance at December 31, 1997. This increase was due to both 1998 net income of \$28.9 million and \$12.5 million in net capital generated during 1998 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, 1998.

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

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Return on average assets.....	1.0%	1.3%	1.4%
DIVIDED BY			
Average equity as a percentage of average assets.....	6.6%	7.1%	7.6%
EQUALS			
Return on average equity.....	14.5%	18.2%	17.9%
TIMES			
Earnings retained.....	100.0%	100.0%	100.0%
EQUALS			
Internal capital growth.....	14.5%	18.2%	17.9%

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, 1998, 1997 and 1996. Capital ratios for the Company are set forth below:

	DECEMBER 31,		
	1998	1997	1996
Total risk-based capital ratio.....	11.5%	11.5%	11.5%
Tier 1 risk-based capital ratio.....	10.3%	10.2%	10.2%
Tier 1 leverage ratio.....	7.6%	7.1%	7.7%

The Company's total risk-based capital ratio at the end of 1998 was unchanged from the prior year end and Tier 1 risk-based capital ratio was slightly higher than 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 1998. The Company's Tier 1 leverage ratio increased to 7.6% from 7.1% at December 31, 1997. This increase was largely attributable to the aforementioned issuance of \$40.0 million in cumulative trust preferred securities during 1998 through SVB Capital I. The Company's total risk-based capital ratio and Tier 1 risk-based capital ratio were unchanged at the end 1997 from the end of 1996. The decrease in the Tier 1 leverage ratio from December 31, 1996 to December 31, 1997 was primarily attributable to an increase in average total assets due to strong growth in deposits during 1997. See "Item 8. Financial Statements and Supplementary Data-- Note 17 to the Consolidated Financial Statements-- Regulatory Matters" for the Bank's capital ratios at December 31, 1998 and 1997.

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, 1998 and 1997, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

*Mountain View, California
January 21, 1999*

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and due from banks.....	\$ 123,001	\$ 105,059
Federal funds sold and securities purchased under agreement to resell.....	399,202	321,773
Investment securities, at fair value.....	1,397,502	1,013,904
Loans, net of unearned income.....	1,611,921	1,174,645
Allowance for loan losses.....	(46,000)	(37,700)
Net loans.....	1,565,921	1,136,945
Premises and equipment.....	11,354	4,460
Other real estate owned.....	664	689
Accrued interest receivable and other assets.....	47,808	42,293
Total assets.....	\$3,545,452	\$2,625,123
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand.....	\$ 921,790	\$ 788,442
NOW.....	19,978	21,348
Money market.....	2,185,359	1,497,996
Time.....	142,626	124,621
Total deposits.....	3,269,753	2,432,407
Other liabilities.....	21,349	18,235
Total liabilities.....	3,291,102	2,450,642
Company obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely junior subordinated debentures (trust preferred securities).....	38,485	--
Shareholders' Equity:		
Preferred stock, no par value:		
20,000,000 shares authorized; none outstanding		
Common stock, no par value:		
60,000,000 shares authorized; 20,711,915 and 19,940,474 shares outstanding at December 31, 1998 and 1997, respectively.....	94,129	83,009
Retained earnings.....	123,855	94,999
Unearned compensation.....	(4,191)	(5,946)
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale investments.....	2,072	2,419
Total shareholders' equity.....	215,865	174,481
Total liabilities and shareholders' equity.....	\$3,545,452	\$2,625,123

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Interest income:			
Loans.....	\$139,136	\$106,840	\$ 87,893
Investment securities.....	64,787	41,868	24,074
Federal funds sold and securities purchased under agreement to resell.....	21,305	17,264	13,106
Total interest income.....	225,228	165,972	125,073
Interest expense:			
Deposits.....	78,609	55,148	37,796
Other borrowings.....	4	--	2
Total interest expense.....	78,613	55,148	37,798
Net interest income.....	146,615	110,824	87,275
Provision for loan losses.....	37,159	10,067	10,426
Net interest income after provision for loan losses.....	109,456	100,757	76,849
Noninterest income:			
Letter of credit and foreign exchange income.....	7,397	4,512	3,423
Disposition of client warrants.....	6,657	5,480	5,389
Investment gains.....	5,240	90	1
Deposit service charges.....	1,730	1,772	1,663
Other.....	2,138	1,411	1,133
Total noninterest income.....	23,162	13,265	11,609
Noninterest expense:			
Compensation and benefits.....	44,232	40,084	31,417
Professional services.....	9,876	6,710	4,987
Furniture and equipment.....	6,667	3,620	3,239
Business development and travel.....	6,025	4,514	2,918
Net occupancy expense.....	5,195	3,410	3,095
Postage and supplies.....	2,225	1,600	1,448
Advertising and promotion.....	2,215	1,448	1,183
Telephone.....	2,157	1,444	1,277
Trust preferred securities distributions.....	2,012	--	--
Cost of other real estate owned.....	(1,214)	76	398
Other.....	4,255	3,395	2,720
Total noninterest expense.....	83,645	66,301	52,682
Income before income tax expense.....	48,973	47,721	35,776
Income tax expense.....	20,117	20,043	14,310
Net income.....	\$ 28,856	\$ 27,678	\$ 21,466
Basic earnings per share.....	\$ 1.42	\$ 1.43	\$ 1.17
Diluted earnings per share.....	\$ 1.38	\$ 1.36	\$ 1.11

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996

	(DOLLARS IN THOUSANDS)		
Net income.....	\$ 28,856	\$ 27,678	\$ 21,466
Other comprehensive income, net of tax:			
Change in unrealized gains/(losses) on available-for-sale investments:			
Unrealized holding gains arising during the period.....	6,672	3,194	5,887
Less: Reclassification adjustment for gains included in net income.....	(7,019)	(3,231)	(3,233)

Other comprehensive (loss) income.....	(347)	(37)	2,654

Comprehensive income.....	\$ 28,509	\$ 27,641	\$ 24,120

See notes to consolidated financial statements

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31,
1998, 1997 AND 1996

	COMMON STOCK		RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	UNEARNED COMPENSATION	TOTAL
	SHARES	AMOUNT				
	(DOLLARS IN THOUSANDS)					
Balance at December 31, 1995.....	17,927,324	\$ 59,357	\$ 45,855	\$ (198)	\$ (40)	\$ 104,974
Common stock issued under employee benefit plans.....	732,662	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
Amortization of unearned compensation.....	--	--	--	--	105	105
Other comprehensive income:						
Net change in unrealized gains/(losses) on available-for-sale investments.....	--	--	--	2,654	--	2,654
Balance at December 31, 1996.....	18,659,986	65,968	67,321	2,456	(345)	135,400
Common stock issued under employee benefit plans.....	1,280,488	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
Amortization of unearned compensation.....	--	--	--	--	815	815
Other comprehensive income:						
Net change in unrealized gains/(losses) on available-for-sale investments.....	--	--	--	(37)	--	(37)
Balance at December 31, 1997.....	19,940,474	83,009	94,999	2,419	(5,946)	174,481
Common stock issued under employee benefit plans.....	771,441	7,954	--	--	(207)	7,747
Income tax benefit from stock options exercised and vesting of restricted stock.....	--	3,166	--	--	--	3,166
Net income.....	--	--	28,856	--	--	28,856
Amortization of unearned compensation.....	--	--	--	--	1,962	1,962
Other comprehensive income:						
Net change in unrealized gains/(losses) on available-for-sale investments.....	--	--	--	(347)	--	(347)
Balance at December 31, 1998.....	20,711,915	\$ 94,129	\$ 123,855	\$ 2,072	\$ (4,191)	\$ 215,865

See notes to consolidated financial statements.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
(DOLLARS IN THOUSANDS)			
Cash flows from operating activities:			
Net income.....	\$ 28,856	\$ 27,678	\$ 21,466
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses.....	37,159	10,067	10,426
Provision for other real estate owned.....	--	--	550
Depreciation and amortization.....	1,837	1,334	1,183
Net gain on sales of investment securities.....	(5,240)	(90)	(1)
Net gain on sales of other real estate owned.....	(1,298)	(45)	(416)
Deferred income tax benefit.....	(5,346)	(1,358)	(2,834)
Increase in unearned income.....	1,993	2,351	1,845
Increase in accrued interest receivable.....	(1,570)	(7,519)	(3,586)
Other, net.....	5,024	965	(576)
Net cash provided by operating activities.....	61,415	33,383	28,057
Cash flows from investing activities:			
Proceeds from maturities and paydowns of investment securities.....	1,810,770	1,149,471	1,000,558
Proceeds from sales of investment securities.....	850,879	139,451	21,277
Purchases of investment securities.....	(3,033,517)	(1,671,449)	(1,313,637)
Net increase in loans.....	(470,392)	(323,909)	(136,660)
Proceeds from recoveries of charged off loans.....	2,264	4,169	2,302
Net proceeds from sales of other real estate owned.....	1,323	1,304	2,873
Purchases of premises and equipment.....	(8,909)	(1,691)	(641)
Net cash applied to investing activities.....	(847,582)	(702,654)	(423,928)
Cash flows from financing activities:			
Net increase in deposits.....	837,347	658,103	484,244
Proceeds from issuance of trust preferred securities, net of issuance costs.....	38,485	--	--
Proceeds from issuance of common stock, net of issuance costs.....	5,706	4,823	2,479
Net cash provided by financing activities.....	881,538	662,926	486,723
Net increase (decrease) in cash and cash equivalents.....	95,371	(6,345)	90,852
Cash and cash equivalents at January 1,.....	426,832	433,177	342,325
Cash and cash equivalents at December 31,.....	\$ 522,203	\$ 426,832	\$ 433,177
Supplemental disclosures:			
Interest paid.....	\$ 78,445	\$ 54,891	\$ 37,737
Income taxes paid.....	\$ 16,990	\$ 19,772	\$ 16,775
Non-cash investing activities:			
Transfer of loans to other real estate owned and other foreclosed assets.....	\$ --	\$ 1,169	\$ --

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 Silicon Valley Bancshares and its subsidiaries (the "Company") conform with generally accepted accounting principles and prevailing practices within the banking industry. Certain reclassifications have been made to the Company's 1997 and 1996 consolidated financial statements to conform to the 1998 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

Silicon Valley Bancshares is a bank holding company whose principal subsidiary is Silicon Valley Bank (the "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 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 Silicon Valley Bancshares and those of its wholly owned subsidiaries, the Bank, SVB Capital I 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 present insignificant risk of changes in value due to maturity dates of 90 days or less.

FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Federal funds sold and securities purchased under agreement to resell as reported in the consolidated balance sheets includes interest-bearing deposits in other financial institutions of \$202,000 and \$273,000 at December 31, 1998 and 1997, respectively.

INVESTMENT SECURITIES

Investment securities are classified as either "available-for-sale," "held-to-maturity" or "trading" upon acquisition.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 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. Currently, all securities held by the Company are classified as available-for-sale.

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.

NONACCRUAL LOANS

Statement of Financial Accounting Standards ("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.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)** 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, 1998 and 1997.

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

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) STOCK-BASED COMPENSATION

In October 1995, the Financial Accounting Standards Board (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.

COMMON STOCK SPLIT

On March 19, 1998, the Company's Board of Directors approved a two-for-one stock split to shareholders of record at the close of business April 17, 1998, effective May 1, 1998. All per share and shares outstanding data in the accompanying consolidated financial statements have been restated to reflect the stock split.

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 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, 1998, 1997 and 1996.

SEGMENT REPORTING

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)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) The Company adopted SFAS No. 131 as of December 31, 1998, however since Management views the Company as operating in only one segment, separate reporting of financial information under SFAS No. 131 is not considered necessary. Management approaches the Company's principal subsidiary, the Bank, as one business enterprise which operates in a single economic environment, since the products and services, types of customers and regulatory environment all have similar economic characteristics.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 132, "Statement on Employers' Disclosures about Pensions and Other Post-Retirement Benefits" was issued by the FASB in February 1998. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company does not have a pension plan or provide for other post-retirement benefits for employees, and thus this statement does not have a material impact on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The statement is effective for fiscal quarters of fiscal years beginning after June 15, 1999. The Company expects to adopt this statement on January 1, 2000. The Company has not yet determined the impact of its adoption on the Company's consolidated financial statements.

In October 1998, FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." SFAS No. 134 amends SFAS No. 65, "Accounting for Certain Mortgage Banking Activities," which establishes accounting and reporting standards for certain activities of mortgage banking enterprises and other enterprises that conduct operations that are substantially similar. SFAS No. 134 requires that after the securitization of mortgage loans held for sale, the resulting mortgage-backed securities and other retained interests should be classified in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," based on the company's ability and intent to sell or hold those investments. SFAS No. 134 is effective for the first fiscal quarter beginning after December 15, 1998. The Company does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

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, 1998, 1997 and 1996:

	YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996		
	NET INCOME	SHARES	PER SHARE AMOUNT
	(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
1998:			
Basic EPS:			
Income available to common shareholders.....	\$ 28,856	20,268	\$ 1.42
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	655	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 28,856	20,923	\$ 1.38
1997:			
Basic EPS:			
Income available to common shareholders.....	\$ 27,678	19,370	\$ 1.43
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	968	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 27,678	20,338	\$ 1.36
1996:			
Basic EPS:			
Income available to common shareholders.....	\$ 21,466	18,426	\$ 1.17
Effect of Dilutive Securities:			
Stock options and restricted stock.....	--	956	--
Diluted EPS:			
Income available to common shareholders plus assumed conversions.....	\$ 21,466	19,382	\$ 1.11

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 \$4.7 million and \$7.2 million at December 31, 1998 and 1997, respectively. The average required reserve balance totaled \$4.2 million in 1998 and \$31.5 million in 1997. The decrease in the average required reserve balance in 1998, compared to the prior year, was due to a decrease in the amount of reservable customer deposits.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Securities purchased under agreement to resell outstanding at December 31, 1998 consisted of U.S. Treasury securities. At other times during the year, these securities also consisted 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 \$185.4 million in 1998, and the maximum amount outstanding at any month-end during 1998 was \$403.0 million.

5. INVESTMENT SECURITIES

All investment securities were classified as available-for-sale at December 31, 1998 and 1997. The Company did not maintain a trading portfolio during 1998 or 1997. The following tables detail the major components of the Company's investment securities portfolio at December 31, 1998 and 1997.

	DECEMBER 31, 1998			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Available-for-sale securities:				
U.S. Treasury securities.....	\$ 40,977	\$ 80	\$ (8)	\$ 41,049
U.S. agencies and corporations:				
Discount notes and bonds.....	497,046	970	--	498,016
Mortgage-backed securities.....	124,759	691	(391)	125,059
Collateralized mortgage obligations.....	154,990	415	(256)	155,149
Obligations of states and political subdivisions.....	514,508	1,339	(77)	515,770
Commercial paper.....	9,993	--	--	9,993
Other debt securities.....	38,390	87	(6)	38,471
Other equity securities.....	13,326	669	--	13,995
Total.....	\$ 1,393,989	\$ 4,251	\$ (738)	\$ 1,397,502

	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
Total.....	\$ 1,009,804	\$ 4,419	\$ (319)	\$ 1,013,904

The amortized cost and fair value of investment securities classified as available-for-sale at December 31, 1998, categorized by remaining contractual maturity, are shown below. Expected remaining maturities of

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INVESTMENT SECURITIES (CONTINUED) 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, 1998	
	AMORTIZED COST	FAIR VALUE
	(DOLLARS IN THOUSANDS)	
Due in one year or less.....	\$ 741,440	\$ 741,741
Due after one year through five years.....	289,148	290,260
Due after five years through ten years.....	100,245	101,197
Due after ten years.....	263,156	264,304
Total.....	\$ 1,393,989	\$ 1,397,502

Investment securities with a fair value of \$42.2 million and \$21.7 million at December 31, 1998 and 1997, 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 \$5,300,000, \$162,000 and \$1,000, and gross losses of \$59,900, \$72,000 and \$200 in 1998, 1997 and 1996, respectively.

6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The detailed composition of loans, net of unearned income of \$10.0 million and \$8.0 million at December 31, 1998 and 1997, respectively, is presented in the following table:

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Commercial.....	\$ 1,429,980	\$ 1,051,218
Real estate construction.....	74,023	53,583
Real estate term.....	60,841	33,395
Consumer and other.....	47,077	36,449
Total loans.....	\$ 1,611,921	\$ 1,174,645

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, 1998, there was only one industry sector (as identified by Standard Industrial Codes) which represented more than 10.0% of the Company's loan portfolio. The Religious Financial Resources Division, in which new loan originations were discontinued in December 31, 1998, represented 10.6% of the Company's total loan portfolio as of December 31, 1998.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Balance at January 1,	\$ 37,700	\$ 32,700	\$ 29,700
Provision for loan losses	37,159	10,067	10,426
Loans charged off	(31,123)	(9,236)	(9,728)
Recoveries	2,264	4,169	2,302
Balance at December 31,	\$ 46,000	\$ 37,700	\$ 32,700

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled \$19.4 million and \$24.5 million at December 31, 1998 and 1997, respectively. Allocations of the allowance for loan losses related to impaired loans totaled \$4.4 million at December 31, 1998 and \$15.9 million at December 31, 1997. Average impaired loans for 1998 and 1997 totaled \$26.2 million and \$19.7 million, respectively. If these loans had not been impaired, \$2.5 million and \$1.1 million in interest income would have been realized during the years ended December 31, 1998 and 1997, respectively. The Company realized no interest income on such impaired loans during 1998 or 1997.

7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Cost:		
Furniture and equipment	\$ 9,716	\$ 5,549
Leasehold improvements	6,962	3,352
Total cost	16,678	8,901
Accumulated depreciation and amortization	(5,324)	(4,441)
Premises and equipment--net	\$ 11,354	\$ 4,460

The Company is obligated under a number of noncancelable operating leases for premises that 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)
1999	\$ 3,399
2000	3,249
2001	3,073
2002	2,886
2003	2,593
After 2003	3,330
Total	\$ 18,530

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. PREMISES AND EQUIPMENT (CONTINUED) Rent expense for premises leased under operating leases totaled \$3.0 million, \$2.0 million and \$1.9 million for the years ended December 31, 1998, 1997 and 1996, respectively.

8. DEPOSITS

The aggregate amount of time deposit accounts individually exceeding \$100,000 totaled \$122.8 million and \$110.4 million at December 31, 1998 and 1997, respectively. At December 31, 1998, all time deposit accounts exceeding \$100,000 were scheduled to mature within one year.

9. TRUST PREFERRED SECURITIES

In May 1998, the Company issued \$40.0 million in cumulative trust preferred securities through a newly formed special-purpose trust, SVB Capital I. The trust is a wholly owned consolidated subsidiary of the Company and its sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a rate of 8.25% per annum of the stated liquidation amount of \$25 per preferred security. In 1998, distributions of \$2.0 million were paid. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

The trust preferred securities are mandatorily redeemable upon the maturity of the debentures on June 15, 2028, or to the extent of any earlier redemption of any debentures by the Company and are callable beginning June 15, 2003.

The purpose of issuing these trust preferred securities was to provide the Company with a more cost-effective means of obtaining Tier 1 capital for regulatory purposes than if the Company itself were to issue preferred stock because the Company is allowed to deduct, for income tax purposes, distributions to the holders of the trust preferred securities.

Issuance costs of \$1.6 million related to the trust preferred securities were deferred and are being amortized over the period until mandatory redemption of the securities in June 2028.

Based on the Nasdaq closing price, the fair value of the trust preferred securities was approximately \$36.4 million as of December 31, 1998.

10. INCOME TAXES

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

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Current provision:			
Federal.....	\$ 19,649	\$ 16,287	\$ 12,425
State.....	5,814	5,114	4,719
Deferred benefit:			
Federal.....	(4,629)	(1,328)	(1,770)
State.....	(717)	(30)	(1,064)
Income tax expense.....	\$ 20,117	\$ 20,043	\$ 14,310
	-----	-----	-----

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAXES (CONTINUED) A reconciliation between the federal statutory income tax rate and the Company's effective income tax rate is shown below.

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Federal statutory income tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of the federal tax effect.....	6.8	6.9	6.6
Tax-exempt interest income.....	(2.0)	(1.1)	(0.4)
Other--net.....	1.3	1.2	(1.2)
	---	---	---
Effective income tax rate.....	41.1%	42.0%	40.0%
	---	---	---

Deferred tax assets (liabilities) consist of the following:

	YEARS ENDED DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Deferred tax assets:		
Allowance for loan losses.....	\$ 17,893	\$ 14,813
Other reserves not currently deductible.....	3,651	2,812
State income taxes.....	1,733	1,450
Depreciation and amortization.....	1,884	985
	-----	-----
Gross deferred tax assets.....	25,161	20,060
Deferred tax liabilities:		
Other deferred tax liabilities.....	(61)	(306)
Net unrealized gain on available-for-sale securities.....	(1,441)	(1,681)
	-----	-----
Gross deferred tax liabilities.....	(1,502)	(1,987)
	-----	-----
Net deferred tax assets.....	\$ 23,659	\$ 18,073
	-----	-----

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.

11. COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes new rules for the reporting and display of comprehensive income and its components. The adoption of this statement had no impact on net income or shareholders' equity. SFAS No. 130 requires the Company's net unrealized gains or losses on available-for-sale securities to be included in other comprehensive income.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. COMPREHENSIVE INCOME (CONTINUED) Components of other comprehensive (loss) income and the related income tax expense or benefit, consists of the following:

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Change in unrealized gains/(losses) on available-for-sale investments:			
Unrealized holding gains arising during the period.....	\$ 11,310	\$ 5,507	\$ 9,812
Related income tax expense.....	(4,638)	(2,313)	(3,925)
Less: Reclassification adjustment for gains included in net income.....	(11,897)	(5,570)	(5,390)
Related income tax benefit.....	4,878	2,339	2,157
	\$ (347)	\$ (37)	\$ 2,654
Other comprehensive (loss) income.....	\$ (347)	\$ (37)	\$ 2,654

12. 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 \$0.5 million in 1998, \$0.4 million in 1997 and \$0.3 million in 1996.

The Silicon Valley Bank Money Purchase Pension Plan (the "MPP Plan") guarantees a 5.0% quarterly contribution to all individuals that are employed by the Company on the first and last day of a fiscal quarter. 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 \$1.1 million in 1998, \$0.9 million in 1997 and \$0.8 million in 1996.

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. In 1998, the Company did not make a discretionary ESOP contribution since net income for the year ended December 31, 1998 did not meet the thresholds set by the Company's Board of Directors at the beginning of 1998. The Company's contributions to the ESOP totaled \$1.7 million and \$1.4 million for 1997 and 1996, respectively. At December 31, 1998, the ESOP owned 886,713 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 1998, 36,859 shares of the Company's common stock were issued under the ESPP at \$23.91 per share, while 50,201 shares of the Company's common stock were issued at \$14.48 per share for the second six-month offering period of 1998. At December 31, 1998, 102,478 shares of the Company's common stock were reserved for future issuance under the ESPP.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. EMPLOYEE BENEFIT PLANS (CONTINUED)

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 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:

	1998		1997		1996	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at January 1,.....	1,905,108	\$ 11.68	2,068,710	\$ 6.25	2,232,404	\$ 5.15
Granted.....	381,090	29.12	828,000	17.08	286,954	12.28
Exercised.....	(616,631)	6.88	(918,712)	4.33	(430,478)	4.54
Forfeited.....	(92,480)	16.13	(72,890)	11.86	(20,170)	6.22
Outstanding at December 31,.....	1,577,087	\$ 17.56	1,905,108	\$ 11.68	2,068,710	\$ 6.25
Exercisable at December 31,.....	670,987	\$ 12.13	841,918	\$ 8.07	1,332,192	\$ 5.57

The following table summarizes information about stock options outstanding as of December 31, 1998:

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
\$ 2.81 - \$ 7.07	158,091	0.91	\$ 6.55	158,091	\$ 6.55
8.00 - 11.50	121,818	2.07	8.28	61,758	8.37
12.13 - 12.13	204,000	2.30	12.13	202,680	12.13
12.88 - 15.75	73,544	4.39	13.77	39,724	13.29
16.50 - 16.50	578,134	8.02	16.50	185,134	16.50
18.94 - 29.94	126,000	8.32	23.67	21,350	22.15
30.06 - 30.06	254,500	9.59	30.06	--	--
31.25 - 31.94	46,000	9.40	31.78	2,250	31.81
33.00 - 33.00	8,000	9.39	33.00	--	--
37.06 - 37.06	7,000	9.54	37.06	--	--
\$ 2.81 - \$37.06	1,577,087	6.27	\$ 17.56	670,987	\$ 12.13

At December 31, 1998, options for 524,010 and 52,862 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

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. EMPLOYEE BENEFIT PLANS (CONTINUED) term. In 1998, 27,000 shares of restricted stock were issued to employees at a weighted-average fair value of \$30.01 per share. In 1997, 220,600 shares of restricted stock were issued to employees at a weighted-average fair value of \$27.95 per share. In 1996, 35,000 shares of restricted stock were issued to employees at a weighted-average fair value of \$11.73 per share. At December 31, 1998, there were 255,600 shares of restricted stock outstanding, and the vesting of these shares occurs at various periods through the year 2002.

The Company recognized \$2.0 million, \$0.8 million and \$0.1 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 1998, 1997 and 1996, 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 1998, 1997 and 1996. The weighted-average fair values of options granted to employees, directors and certain other parties were \$12.39, \$8.16 and \$5.42 per share in 1998, 1997 and 1996, 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,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net income:			
As reported.....	\$ 28,856	\$ 27,678	\$ 21,466
Pro forma (1).....	26,344	24,892	20,465
Basic earnings per share:			
As reported.....	\$ 1.42	\$ 1.43	\$ 1.17
Pro forma (1).....	1.30	1.29	1.11
Diluted earnings per share:			
As reported.....	\$ 1.38	\$ 1.36	\$ 1.11
Pro forma (1).....	1.27	1.23	1.06

(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)

12. EMPLOYEE BENEFIT PLANS (CONTINUED) The fair value of the stock option grants in 1998, 1997 and 1996 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,		
	1998	1997	1996
Dividend yield.....	--%	--%	--%
Expected life of options in years.....	5	5	4
Expected volatility of the Company's underlying common stock.....	39.5%	44.7%	47.5%
Expected risk-free interest rate.....	5.3%	6.3%	6.1%

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 1998, 1997 and 1996, 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.

13. RELATED PARTIES

Silicon Valley Bancshares had \$955,000 and \$250,000 in loans outstanding to employees, as of December 31, 1998 and 1997, respectively. In December 1997, Silicon Valley Bancshares 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, the first of which was made in December 1998. In January 1998, as part of the same relocation agreement, an additional \$600,000 was loaned to that officer. 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. 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. In June 1998, Silicon Valley Bancshares loaned \$75,000 to another officer of the Company. The unsecured loan accrues interest at the rate of 5.50% per annum and is payable in three annual installments of \$25,000 beginning in March 1999. Also in 1998, the Company made an interest-free, secured loan of \$80,000 to an employee of the Bank. The Company had no other loans outstanding to related parties during 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 1998, 1997 and 1996.

14. 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 and market interest rates. These financial instruments include commitments to extend credit, commercial and standby letters of credit, foreign exchange forward contracts, and interest rate swap agreements. 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.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED) 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, 1998 and 1997, the Company had \$859.2 million and \$426.1 million of unused loan commitments available to customers, of which \$126.2 million and \$86.4 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 \$1.7 billion and \$1.4 billion at December 31, 1998 and 1997, 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, 1998 and 1997, commercial and standby letters of credit totaled a combined \$151.3 million and \$112.9 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, 1998 and 1997, the notional amounts of these contracts totaled \$77.1 million and \$28.2 million, respectively. The maximum credit exposure for counterparty nonperformance for foreign exchange forward contracts with both customers and correspondent banks amounted to \$2.1 million at December 31, 1998 and \$0.3 million at December 31, 1997. The Company has incurred no losses from counterparty nonperformance and anticipates performance by all counterparties to such foreign exchange forward contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED) INTEREST RATE SWAP AGREEMENTS

During the fourth quarter of 1998, the Company entered into an interest rate swap agreement with a maturity of one year in order to manage its exposure to market interest rate movements by effectively converting a portion of its interest-earning assets from variable rate to fixed rate. The face value of the interest rate swap at December 31, 1998 was \$150.0 million. This agreement involves the exchange of variable rate payments for fixed rate payments without the exchange of the underlying face value. Under this agreement, the Company will receive fixed interest payments at a rate of 7.765% and will pay variable rate interest payments, based on the average three-month U.S. Prime Rate. The U.S. Prime Rate at December 31, 1998 was 7.75%. Interest rate differentials paid or received under this agreement are recognized as an adjustment to interest income. The notional amount does not represent the amount exchanged by the parties, and thus is not a measure of exposure of the Company. The amounts exchanged are based on the notional amount and other terms of the swap. The average variable rates are subject to change over time as the U.S. Prime Rate fluctuates. The counterparty to the swap agreement is Bank of America National Trust and Savings Association. The Company is exposed to credit losses from counterparty nonperformance, but does not anticipate any losses from this agreement. The Company does not hold interest rate swap agreements for trading purposes.

15. 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 present insignificant risk of changes in value due to maturity dates of 90 days or less. For these short-term financial instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities: For 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

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED) 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 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 and interest rate swaps are based on the estimated amounts the Company would receive or pay to terminate the contracts at the reporting date.

Limitations: The information presented herein is based on pertinent information available to the Company as of December 31, 1998 and 1997, 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, 1998 and 1997 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,			
	1998		1997	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Financial Assets:				
Cash and due from banks.....	\$ 123,001	\$ 123,001	\$ 105,059	\$ 105,059
Federal funds sold and securities purchased under agreement to resell.....	399,202	399,202	321,773	321,773
Investment securities, at fair value.....	1,397,502	1,397,502	1,013,904	1,013,904
Net loans.....	1,565,921	1,598,052	1,136,945	1,151,273
Financial Liabilities:				
Noninterest-bearing demand deposits.....	921,790	921,790	788,442	788,442
NOW deposits.....	19,978	19,978	21,348	21,348
Money market deposits.....	2,185,359	2,185,359	1,497,996	1,497,996
Time deposits.....	142,626	142,770	124,621	124,922
Off-Balance Sheet Financial Instruments:				
Foreign exchange forward contracts--receive.....	--	40,193	--	13,798
Foreign exchange forward contracts--pay.....	--	(40,193)	--	(13,798)
Interest rate swap agreement.....	--	19	--	--

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. 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.

17. 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, 1998, approximately \$68.3 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 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, 1998, that the Company and the Bank meet all capital adequacy requirements to which they are subject. As of December 31, 1998, 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.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. REGULATORY MATTERS (CONTINUED)

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, 1998 and 1997:

	ACTUAL RATIO	ACTUAL AMOUNT	MINIMUM RATIO	MINIMUM CAPITAL REQUIREMENT
(DOLLARS IN THOUSANDS)				
As of December 31, 1998:				
Total risk-based capital ratio				
Company.....	11.5%	\$ 283,159	8.0%	\$ 196,423
Bank.....	10.2%	\$ 247,832	8.0%	\$ 193,896
Tier 1 risk-based capital ratio				
Company.....	10.3%	\$ 252,279	4.0%	\$ 98,212
Bank.....	9.0%	\$ 217,342	4.0%	\$ 96,948
Tier 1 leverage ratio				
Company.....	7.6%	\$ 252,279	4.0%	\$ 133,128
Bank.....	6.6%	\$ 217,342	4.0%	\$ 131,664
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

18. SHAREHOLDERS' RIGHTS PLAN

On October 22, 1998, the Company's Board of Directors adopted a shareholders rights plan (the "Rights Plan") designed to protect the Company's shareholders from various abusive takeover tactics, including attempts to acquire control of the Company without offering a fair price to all shareholders. Under the Rights Plan, each shareholder received a dividend of one right for each outstanding share of common stock of the Company. The rights are attached to, and presently only traded with, the common stock and are currently not exercisable. Except as specified below, upon becoming exercisable, all rights holders will be entitled to purchase from the Company 1/1000th of a share of the Company's preferred stock at a price of \$120.00.

The rights become exercisable and will begin to trade separately from the common stock of the Company upon the earlier of (i) the tenth day after a person or group has acquired beneficial ownership of 10% or more of the outstanding common stock of the Company or (ii) the tenth business day after a person or group announces a tender or exchange offer, the consummation of which would result in ownership by a person or group of 10% or more of the Company's common stock. Each right will entitle the holder to purchase common stock of the Company having a current market value of twice the exercise price of the right. If the Company is acquired through a merger or other business combination transaction or there is a sale of more than 50% of the Company's assets or earning power, each right will entitle the holder (other than rights held by the acquiring person) to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. **SHAREHOLDERS' RIGHTS PLAN (CONTINUED)** The Company's Board of Directors has the option any time after a person or group becomes a 10% holder of the outstanding common stock of the Company to exchange all or part of the rights (other than rights held by the acquiring person) for shares of common stock of the Company provided that the Company may not make such an exchange after the person becomes the beneficial owner of 50% or more of the Company's outstanding common stock.

The Company may redeem the rights for \$0.001 each at any time on, or prior to, public announcement that a person has acquired beneficial ownership of 10% or more of the Company's common stock. The rights will expire on October 22, 2008, unless earlier redeemed or exchanged. The rights will not have any voting rights, but will have the benefit of certain customary anti-dilution provisions. The dividend distribution of the rights was not taxable to the Company or its shareholders.

19. **PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

The condensed balance sheets of Silicon Valley Bancshares (parent company only) at December 31, 1998 and 1997, and the related condensed statements of income and condensed statements of cash flows for the years ended December 31, 1998, 1997 and 1996 are presented below. Certain reclassifications have been made to the parent company's 1997 and 1996 financial information to conform to the 1998 presentations. Such reclassifications had no effect on the results of operations or shareholders' equity.

CONDENSED BALANCE SHEETS

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Assets:		
Cash on deposit with bank subsidiary.....	\$ 2,496	\$ 8,584
Investment securities, at fair value.....	32,598	3,433
Loans to related parties.....	955	250
Other assets.....	324	516
Investment in subsidiaries:		
Bank subsidiary.....	219,019	162,218
Nonbank subsidiary.....	1,237	--
Total assets.....	\$ 256,629	\$ 175,001
Short-term liabilities.....	\$ 900	\$ 520
Indebtedness to nonbank subsidiary.....	39,864	--
Shareholders' equity.....	215,865	174,481
Total liabilities and shareholders' equity.....	\$ 256,629	\$ 175,001

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Interest income.....	\$ 1,050	\$ 630	\$ 345
Interest expense.....	(2,070)	--	--
Income from the disposition of client warrants.....	6,657	5,480	5,389
General and administrative expenses.....	(285)	(229)	(175)
Income tax expense.....	(2,248)	(2,470)	(2,364)
Income before equity in net income of bank subsidiary.....	3,104	3,411	3,195
Equity in net income of bank subsidiary.....	25,752	24,267	18,271
Net income.....	\$ 28,856	\$ 27,678	\$ 21,466

CONDENSED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Cash flows from operating activities:			
Net income.....	\$ 28,856	\$ 27,678	\$ 21,466
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of bank subsidiary.....	(25,752)	(24,267)	(18,271)
Decrease (increase) in other assets.....	192	(304)	(196)
Increase (decrease) in short-term liabilities.....	467	(876)	924
Other, net.....	1	14	27
Net cash provided by operating activities.....	3,764	2,245	3,950
Cash flows from investing activities:			
Net (increase) decrease in investment securities.....	(29,377)	3,074	(5,626)
Net increase in loans to related parties.....	(705)	(250)	--
Investment in bank subsidiary.....	(26,039)	(7,115)	(2,956)
Investment in nonbank subsidiary.....	(1,237)	--	--
Net cash applied to investing activities.....	(57,358)	(4,291)	(8,582)
Cash flows from financing activities:			
Proceeds from borrowings from nonbank subsidiary, net of costs.....	39,864	--	--
Proceeds from issuance of common stock, net of issuance costs.....	7,642	6,405	4,298
Net cash provided by financing activities.....	47,506	6,405	4,298
Net (decrease) increase in cash.....	(6,088)	4,359	(334)
Cash on deposit with bank subsidiary at January 1,.....	8,584	4,225	4,559
Cash on deposit with bank subsidiary at December 31,.....	\$ 2,496	\$ 8,584	\$ 4,225

SILICON VALLEY BANCSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. UNAUDITED QUARTERLY FINANCIAL DATA

	1998				1997			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)							
Net interest income.....	\$ 31,937	\$ 35,399	\$ 38,456	\$ 40,823	\$ 23,857	\$ 27,082	\$ 29,054	\$ 30,831
Provision for loan losses....	5,480	4,024	10,557	17,098	3,348	2,618	1,716	2,385
Noninterest income.....	5,391	4,435	7,716	5,620	4,830	2,977	2,806	2,652
Noninterest expense.....	18,904	21,773	21,063	21,905	14,667	15,754	17,618	18,262
Income before income taxes...	12,944	14,037	14,552	7,440	10,672	11,687	12,526	12,836
Income tax expense.....	5,365	5,836	6,002	2,914	4,482	4,908	5,261	5,392
Net income.....	\$ 7,579	\$ 8,201	\$ 8,550	\$ 4,526	\$ 6,190	\$ 6,779	\$ 7,265	\$ 7,444
Basic earnings per share.....	\$ 0.38	\$ 0.40	\$ 0.42	\$ 0.22	\$ 0.33	\$ 0.35	\$ 0.37	\$ 0.38
Diluted earnings per share...	\$ 0.36	\$ 0.39	\$ 0.41	\$ 0.22	\$ 0.31	\$ 0.34	\$ 0.35	\$ 0.36

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 1999 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," "Option Grants in Last Fiscal Year," "Table 2--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 1999 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 1999 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 1999 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 71 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, 1998.

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 19, 1999

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

SIGNATURE	TITLE	DATE
/s/ DANIEL J. KELLEHER ----- Daniel J. Kelleher	Chairman of the Board of Directors and Director	March 19, 1999
/s/ JOHN C. DEAN ----- John C. Dean	President, Chief Executive Officer and Director (Principal Executive Officer)	March 19, 1999
/s/ CHRISTOPHER T. LUTES ----- Christopher T. Lutes	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	March 19, 1999
/s/ LYDIA A. BURKE ----- Lydia A. Burke	Senior Vice President, Controller (Principal Accounting Officer)	March 19, 1999
/s/ GARY K. BARR ----- Gary K. Barr	Director	March 19, 1999
/s/ JAMES F. BURNS, JR. ----- James F. Burns, Jr.	Director	March 19, 1999
/s/ DAVID DEWILDE ----- David deWilde	Director	March 19, 1999
/s/ CLARENCE J. FERRARI, JR. ----- Clarence J. Ferrari, Jr.	Director	March 19, 1999
/s/ HENRY M. GAY ----- Henry M. Gay	Director	March 19, 1999
/s/ STEPHEN E. JACKSON ----- Stephen E. Jackson	Director	March 19, 1999
/s/ JAMES R. PORTER ----- James R. Porter	Director	March 19, 1999
/s/ ANN R. WELLS ----- Ann R. Wells	Director	March 19, 1999

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
3.1	Articles of Incorporation of the Company, as amended(9).....	--
3.2	Bylaws of the Company, amendment and restatement effective as of August 21, 1997(7).....	--
3.3	Certificate of Amendment of Bylaws of Silicon Valley Bancshares as of October 22, 1998.....	73
4.1	Article Three of Articles of Incorporation (included in Exhibit 3.1)(1).....	--
4.2	Form of Subordinated Indenture(10).....	--
4.3	Form of Junior Subordinated Debenture(10).....	--
4.6	Form of Amended and Restated Trust Agreement of SVB Capital I(10).....	--
4.7	Form of Trust Preferred Certificate of SVB Capital I (included as an exhibit to Exhibit 4.6)(10).....	--
4.8	Form of Guarantee Agreement(10).....	--
4.9	Form of Agreement as to Expenses and Liabilities (included as an exhibit to Exhibit 4.6)(10).....	--
4.10	Form of Common Securities Certificate of SVB Capital I (included as an exhibit to Exhibit 4.6)(10).....	--
4.11	Form of Officers' Certificate and Company Order(10).....	--
10.3	Employment Agreement between Silicon Valley Bancshares and John C. Dean(2).....	--
10.17	Lease Agreement between Silicon Valley Bank and WRC Properties, Inc.; 3003 Tasman Drive, Santa Clara, CA 95054(3).....	--
10.17(a)	First amendment to lease outlined in Exhibit 10.17(6).....	--
10.28	Amendment and Restatement of the Silicon Valley Bancshares 1989 Stock Option Plan(4).....	--
10.29	Silicon Valley Bank Money Purchase Pension Plan(4).....	--
10.30	Amendment and Restatement of the Silicon Valley Bank Money Purchase Pension Plan(4).....	--
10.31	Amendment and Restatement of the Silicon Valley Bank 401(k) and Employee Stock Ownership Plan(4).....	--
10.32	Executive Change in Control Severance Benefits Agreement(5).....	--
10.33	Change in Control Severance Policy For Non-executives(5).....	--
10.34	Silicon Valley Bancshares 1997 Equity Incentive Plan(6).....	--
10.35	Silicon Valley Bancshares 1988 Employee Stock Purchase Plan Effective June 22, 1988, revised October 17, 1997(7).....	--
10.36	Relocation Agreement between Silicon Valley Bancshares and Kenneth P. and Ruth Wilcox, as of December 18, 1997(8).....	--
10.37	Bonus Agreement between Silicon Valley Bank and Kenneth P. Wilcox, as of December 18, 1997(8).....	--
10.38	Promissory Note between Silicon Valley Bancshares and Christopher T. Lutes, as of June 10, 1998(10).....	--
10.39	The 1998 Venture Capital Retention Program, Amended June 18, 1998(10).....	--
10.40	Severance Agreement between Silicon Valley Bancshares and John C. Dean related to garage.com-TM-, as of August 12, 1998(11).....	--

EXHIBIT NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
10.41	Severance Agreement between Silicon Valley Bancshares and Harry W. Kellogg related to garage.com-TM-, as of August 12, 1998(11).....	--
10.42	Form of Executive Change In Control Severance Benefits, as of August 12, 1998(11).....	--
10.43	Preferred Shares Rights Agreement, as of October 22, 1998.....	76
21.1	Subsidiaries of Silicon Valley Bancshares.....	136
23.1	Independent Auditors' Consent.....	137
27.1	Financial Data Schedule.....	138

-
- (1) Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
- (2) Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.
- (3) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) Incorporated by reference to Exhibits 10.36 and 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.
- (9) Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (10) Incorporated by reference to Exhibits 4.2, 4.3, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11, 10.38, and 10.39 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- (11) Incorporated by reference to Exhibits 10.40, 10.41 and 10.42 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

Exhibit 3.3

**CERTIFICATE OF AMENDMENT
OF BYLAWS OF
SILICON VALLEY BANCSHARES**

The undersigned Secretary of Silicon Valley Bancshares, hereby certifies that Sections 2.3, 2.8(b)(ii) and 2.11 of the Bylaws of this corporation were amended on October 22, 1998, by the Board of Directors of this corporation such that such Sections now read in their entirety as follows:

" Section 2.3 SPECIAL MEETINGS. Special meetings of the shareholders, for the purpose of taking any action permitted by the shareholders under the California General Corporation Law, may be called at any time by the Board or, subject to the provisions of this Section 2.3, by the Chair of the Board, the President, or one or more shareholders holding not less than ten percent (10%) of the votes entitled to be cast at the meeting. For a special meeting of the shareholders to be properly brought by any person or persons other than the Board pursuant to the preceding sentence, the person or persons calling the meeting must have given timely notice thereof in writing to the Secretary of the Corporation and the business proposed to be conducted at such meeting must otherwise be a proper matter for shareholder action. To be timely, such notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the date of the meeting proposed by the person or persons calling the meeting. Such notice shall set forth (a) the proposed date and time of the meeting, (b) as to each person whom the person or persons calling the meeting propose to nominate for election or reelection as a director all information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (or any successor thereto) and Rule 14a-11 thereunder (or any successor thereto) (including such nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (c) as to any other business that the person or persons calling the meeting proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such person or persons and any other person or entity, if any, on whose behalf the proposal is made; and (d) as to any shareholders giving the notice (i) the name and address of such shareholders, as they appear on the Corporation's books and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholders. Upon notice meeting the requirements of this Section 2.3 by any person or persons entitled to call a special meeting of shareholders, the Corporation shall cause notice to be given to shareholders entitled to vote that a meeting will be held. Except in special cases where other express provision is made by statute, notice of special meetings shall be given in the same manner as for annual meetings of shareholders. In addition, to the matters required by items (i), and, if applicable, (ii) and (iii) of the preceding Section, notice of any special meeting shall specify the general nature of the business to be transacted, and no other business may be transacted at such meeting."

" 2.8(b)(ii) Prompt notice shall be given at the taking of any other corporate action approved by shareholders without a meeting by less than unanimous written

consent, to those shareholders entitled to vote who have not consented in writing. Such notices shall be given as provided in Section 2.2(c) of these Bylaws.

Any shareholder of record or other person or entity seeking to have the shareholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date pursuant to Section 5.1 hereof. The Board of Directors may, at any time within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date (unless a record date has previously been fixed pursuant to Section 5.1 hereof). If no record date has been fixed by the Board of Directors pursuant to Section 5.1 hereof or otherwise within ten (10) days of the date on which such a request is received, the record date for determining shareholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its principal place of business or to any officer or agent of the Corporation having custody of the book in which proceedings of meetings of shareholders are recorded. Delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining shareholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

In the event of the delivery, in the manner provided by this

Section 2.8(b)(ii), to the Corporation of the requisite written consent or consents to take corporate action and/or any related revocation or revocations, the Corporation may engage independent inspectors of elections for the purpose of performing promptly a ministerial review of the validity of the consents and revocations. For the purpose of permitting the inspectors to perform such review, in the event such inspectors are appointed, no action by written consent without a meeting shall be effective until such date as such appointed independent inspectors certify to the Corporation that the consents delivered to the Corporation in accordance herewith represent at least the minimum number of votes that would be necessary to take the corporate action. Nothing contained in this Section 2.8 shall in any way be construed to suggest or imply that the Board of Directors or any shareholder shall not be entitled to contest the validity of any consent or revocation thereof, whether before or after any certification by any independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

Every written consent shall bear the date of signature of each shareholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated written consent received in accordance with this Section 2.8, a written consent or consents signed by a sufficient number of holders to take such action are delivered to the Corporation in the manner prescribed herein.

Any shareholder giving a written consent, or the shareholder's proxyholder, or a transferee of the shares, or a personal representative of the shareholder or their respective proxyholders, may revoke the consent by a writing received by the Corporation prior to the time that written consents by the number of shares required to authorize the proposed action have been filed with the Secretary of the Corporation, but may not do so thereafter. Such revocation is effective upon its receipt by the Secretary of the Corporation."

2.11 NOMINATIONS AND PROPOSALS.

Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the shareholders may be made at any meeting of shareholders only (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in these bylaws, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.11.

For nominations or other business to be properly brought before a shareholders meeting by a shareholder pursuant to clause (c) of the preceding sentence, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the meeting; provided, however, that in the event that less than 65 days notice of the meeting is given to shareholders, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the seventh (7th) day following the day on which the notice of meeting was mailed. In no event shall the public announcement of an adjournment of a shareholders meeting commence a new time period for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (or any successor thereto) and Rule 14a-11 thereunder (or any successor thereto) (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner, and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner. Notwithstanding any provision herein to the contrary, no business shall be conducted at a shareholders meeting except in accordance with the procedures set forth in this Section 2.11."

This Certificate of Amendment of Bylaws shall be effective as of this 22nd day of October, 1998.

A. Catherine Ngo, Secretary

SILICON VALLEY BANCSHARES

AND

NORWEST BANK MINNESOTA, N.A.

RIGHTS AGENT

PREFERRED SHARES RIGHTS AGREEMENT

DATED AS OF OCTOBER 22, 1998

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Exhibit A	Form of Certificate of Determination
Exhibit B	Form of Rights Certificate
Exhibit C	Summary of Rights

EXHIBIT 10.43

RIGHTS AGREEMENT

Agreement, dated as of October 22, 1998, between Silicon Valley Bancshares, a California corporation, and Norwest Bank Minnesota, N.A.

On October 22, 1998 (the "RIGHTS DIVIDEND DECLARATION DATE"), the Board of Directors of the Company authorized and declared a dividend of one Preferred Share Purchase Right (a "RIGHT") for each Common Share (as hereinafter defined) of the Company outstanding as of the Close of Business (as hereinafter defined) on November 9, 1998 (the "RECORD DATE"), each Right representing the right to purchase one one-thousandth of a share of Series A Participating Preferred Stock (as such number may be adjusted pursuant to the provisions of this Agreement), having the rights, preferences and privileges set forth in the form of Certificate of Determination attached hereto as Exhibit A, upon the terms and subject to the conditions herein set forth, and further authorized and directed the issuance of one Right (as such number may be adjusted pursuant to the provisions of this Agreement) with respect to each Common Share that shall become outstanding between the Record Date and the earlier of the Distribution Date and the Expiration Date (as such terms are hereinafter defined), and in certain circumstances after the Distribution Date.

NOW, THEREFORE, in consideration of the promises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. CERTAIN DEFINITIONS. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "ACQUIRING PERSON" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 10% or more of the Common Shares then outstanding, but shall not include the Company, any Subsidiary of the Company or any employee benefit plan of the Company or of any Subsidiary of the Company, or any entity holding Common Shares for or pursuant to the terms of any such plan. Notwithstanding the foregoing, no Person shall be deemed to be an Acquiring Person as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 10% or more of the Common Shares of the Company then outstanding; PROVIDED, HOWEVER, that if a Person shall become the Beneficial Owner of 10% or more of the Common Shares of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), then such Person shall be deemed to be an Acquiring Person unless upon becoming the Beneficial Owner of such additional Common Shares of the Company such Person does not beneficially own 10% or more of the Common Shares of the Company then outstanding. Notwithstanding the foregoing, (i) if the Company's Board of Directors determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions

of this paragraph (a), has become such inadvertently (including, without limitation, because (A) such Person was unaware that it beneficially owned a percentage of the Common Shares that would otherwise cause such Person to be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), or (B) such Person was aware of the extent of the Common Shares it beneficially owned but had no actual knowledge of the consequences of such beneficial ownership under this Agreement) and without any intention of changing or influencing control of the Company, and if such Person divested or divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be or to have become an "Acquiring Person" for any purposes of this Agreement; and

(ii) if, as of the date hereof, any Person is the Beneficial Owner of 10% or more of the Common Shares outstanding, such Person shall not be or become a "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), unless and until such time as such Person shall become the Beneficial Owner of additional Common Shares (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), unless, upon becoming the Beneficial Owner of such additional Common Shares, such Person is not then the Beneficial Owner of 10% or more of the Common Shares then outstanding.

(b) "ADJUSTMENT FRACTION" shall have the meaning set forth in Section 11(a)(i) hereof.

(c) "AFFILIATE" and "ASSOCIATE" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement.

(d) A Person shall be deemed the "BENEFICIAL OWNER" of and shall be deemed to "BENEFICIALLY OWN" any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 thereunder (or any comparable or successor law or regulation);

(ii) which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; PROVIDED, HOWEVER, that a Person shall not be deemed pursuant to this

Section 1(d)(ii)(A) to be the Beneficial Owner of, or to beneficially own,

(1) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, or

(2) securities which a Person or any of such Person's Affiliates or Associates may be deemed to have the right to acquire pursuant to any merger or other acquisition agreement between the Company and such Person (or one

or more of its Affiliates or Associates) if such agreement has been approved by the Board of Directors of the Company prior to there being an Acquiring Person; or (B) the right to vote pursuant to any agreement, arrangement or understanding; PROVIDED, HOWEVER, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this Section 1(d)(ii)(B) if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations of the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding, whether or not in writing (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to Section 1(d)(ii)(B)) or disposing of any securities of the Company; PROVIDED, HOWEVER, that in no case shall an officer or director of the Company be deemed

(x) the Beneficial Owner of any securities beneficially owned by another officer or director of the Company solely by reason of actions undertaken by such persons in their capacity as officers or directors of the Company or (y) the Beneficial Owner of securities held of record by the trustee of any employee benefit plan of the Company or any Subsidiary of the Company for the benefit of any employee of the Company or any Subsidiary of the Company, other than the officer or director, by reason of any influence that such officer or director may have over the voting of the securities held in the plan.

(e) "BUSINESS DAY" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in New York are authorized or obligated by law or executive order to close.

(f) "CLOSE OF BUSINESS" on any given date shall mean 5:00 P.M., New York time, on such date; PROVIDED, HOWEVER, that if such date is not a Business Day it shall mean 5:00 P.M., New York time, on the next succeeding Business Day.

(g) "COMMON SHARES" when used with reference to the Company shall mean the shares of Common Stock of the Company. Common Shares when used with reference to any Person other than the Company shall mean the capital stock (or equity interest) with the greatest voting power of such other Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

(h) "COMMON STOCK EQUIVALENTS" shall have the meaning set forth in Section 11(a)(iii) hereof.

(i) "COMPANY" shall mean Silicon Valley Bancshares, a California corporation, subject to the terms of Section 13(a)(iii)(C) hereof.

(j) "CURRENT PER SHARE MARKET PRICE" of any security (a "Security" for purposes of this definition), for all computations other than those made pursuant to Section 11(a)(iii) hereof, shall mean the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days immediately prior to such date, and for purposes of computations made pursuant to Section 11(a)(iii) hereof, the Current Per Share Market Price of any Security on any date shall be deemed to be the average of the daily closing prices per share of such Security for the ten (10) consecutive Trading Days immediately prior to such date; PROVIDED, HOWEVER, that in the event that the Current Per Share Market Price of the Security is determined during a period following the announcement by the issuer of such Security of (i) a dividend or distribution on such Security payable in shares of such Security or securities convertible into such shares or (ii) any subdivision, combination or reclassification of such Security, and prior to the expiration of the applicable thirty (30) Trading Day or ten (10) Trading Day period, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the Current Per Share Market Price shall be appropriately adjusted to reflect the current market price per share equivalent of such Security. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Security is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last sale price or, if such last sale price is not reported, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other system then in use, or, if on any such date the Security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by the Board of Directors of the Company. If on any such date no market maker is making a market in the Security, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used. If the Preferred Shares are not publicly traded, the Current Per Share Market Price of the Preferred Shares shall be conclusively deemed to be the Current Per Share Market Price of the Common Shares as determined pursuant to this Section 1(j), as appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof, multiplied by 1000. If the Security is not publicly held or so listed or traded, Current Per Share Market Price shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(k) "CURRENT VALUE" shall have the meaning set forth in Section 11(a)(iii) hereof.

(l) "DISTRIBUTION DATE" shall mean the earlier of (i) the Close of Business on the tenth day after the Shares Acquisition Date (or, if the tenth day after the Shares Acquisition Date occurs before the Record Date, the Close of Business on the Record Date) or (ii) the Close of Business on the tenth Business Day (or such later date as may be determined by action of the Company's Board of Directors) after the date that a tender or exchange offer by any Person (other than the Company, any

Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if, assuming the successful consummation thereof, such Person would be an Acquiring Person.

(m) "EQUIVALENT SHARES" shall mean Preferred Shares and any other class or series of capital stock of the Company which is entitled to the same rights, privileges and preferences as the Preferred Shares.

(n) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(o) "EXCHANGE RATIO" shall have the meaning set forth in Section 24(a) hereof.

(p) "EXERCISE PRICE" shall have the meaning set forth in Section 4(a) hereof.

(q) "EXPIRATION DATE" shall mean the earliest to occur of: (i) the Close of Business on the Final Expiration Date, (ii) the Redemption Date, or
(iii) the time at which the Board of Directors orders the exchange of the Rights as provided in Section 24 hereof.

(r) "FINAL EXPIRATION DATE" shall mean October 22, 2008.

(s) "INTERESTED PERSON" with respect to a Transaction shall mean any Person who (i) is or will become an Acquiring Person if the Transaction were to be consummated or an Affiliate or Associate of such a Person, and (ii) is, or directly or indirectly proposed, nominated or financially supported a director of the Company in office at the time of consideration of the Transaction in question who was elected by written consent of shareholders.

(t) "NASDAQ" shall mean the National Association of Securities Dealers, Inc. Automated Quotations System.

(u) "PERSON" shall mean any individual, firm, corporation or other entity, and shall include any successor (by merger or otherwise) of such entity.

(v) "POST-EVENT TRANSFEREE" shall have the meaning set forth in Section 7(e) hereof.

(w) "PREFERRED SHARES" shall mean shares of Series A Participating Preferred Stock of the Company.

(x) "PRE-EVENT TRANSFEREE" shall have the meaning set forth in Section 7(e) hereof.

(y) "PRINCIPAL PARTY" shall have the meaning set forth in Section 13(b) hereof.

- (z) "RECORD DATE" shall have the meaning set forth in the recitals at the beginning of this Agreement.
- (aa) "REDEMPTION DATE" shall have the meaning set forth in Section 23(a) hereof.
- (bb) "REDEMPTION PRICE" shall have the meaning set forth in Section 23(a) hereof.
- (cc) "RIGHTS AGENT" shall mean Norwest Bank Minnesota, N.A. or its successor or replacement as provided in Sections 19 and 21 hereof.
- (dd) "RIGHTS CERTIFICATE" shall mean a certificate substantially in the form attached hereto as Exhibit B.
- (ee) "RIGHTS DIVIDEND DECLARATION DATE" shall have the meaning set forth in the recitals at the beginning of this Agreement.
- (ff) "SECTION 11(a)(ii) TRIGGER DATE" shall have the meaning set forth in Section 11(a)(iii) hereof.
- (gg) "SECTION 13 EVENT" shall mean any event described in clause (i), (ii) or (iii) of Section 13(a) hereof.
- (hh) "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.
- (ii) "SHARES ACQUISITION DATE" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such; PROVIDED THAT, if such Person is determined not to have become an Acquiring Person pursuant to Section 1(a) hereof, then no Shares Acquisition Date shall be deemed to have occurred.
- (jj) "SPREAD" shall have the meaning set forth in Section 11(a)(iii) hereof.
- (kk) "SUBSIDIARY" of any Person shall mean any corporation or other entity of which an amount of voting securities sufficient to elect a majority of the directors or Persons having similar authority of such corporation or other entity is beneficially owned, directly or indirectly, by such Person, or any corporation or other entity otherwise controlled by such Person.
- (ll) "SUBSTITUTION PERIOD" shall have the meaning set forth in Section 11(a)(iii) hereof.
- (mm) "SUMMARY OF RIGHTS" shall mean a summary of this Agreement substantially in the form attached hereto as Exhibit C.

(nn) "TOTAL EXERCISE PRICE" shall have the meaning set forth in Section 4(a) hereof.

(oo) "TRADING DAY" shall mean a day on which the principal national securities exchange on which a referenced security is listed or admitted to trading is open for the transaction of business or, if a referenced security is not listed or admitted to trading on any national securities exchange, a Business Day.

(pp) "TRANSACTION" shall mean any merger, consolidation or sale of assets described in Section 13(a) hereof or any acquisition of Common Shares which would result in a Person becoming an Acquiring Person.

(qq) A "TRIGGERING EVENT" shall be deemed to have occurred upon any Person, becoming an Acquiring Person.

Section 2. APPOINTMENT OF RIGHTS AGENT. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Shares) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable.

Section 3. ISSUANCE OF RIGHTS CERTIFICATES.

(a) Until the Distribution Date, (i) the Rights will be evidenced (subject to the provisions of Sections 3(b) and 3(c) hereof) by the certificates for Common Shares registered in the names of the holders thereof (which certificates shall also be deemed to be Rights Certificates) and not by separate Rights Certificates and (ii) the right to receive Rights Certificates will be transferable only in connection with the transfer of Common Shares. Until the earlier of the Distribution Date or the Expiration Date, the surrender for transfer of certificates for Common Shares shall also constitute the surrender for transfer of the Rights associated with the Common Shares represented thereby. As soon as practicable after the Distribution Date, the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send) by first-class, postage-prepaid mail, to each record holder of Common Shares as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Company, a Rights Certificate evidencing one Right for each Common Share so held, subject to adjustment as provided herein. In the event that an adjustment in the number of Rights per Common Share has been made pursuant to Section 11 hereof, then at the time of distribution of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of the Distribution Date, the Rights will be evidenced solely by such Rights Certificates and may be transferred by the transfer of the Rights Certificates as permitted hereby, separately and apart from any transfer of Common Shares, and the

holders of such Rights Certificates as listed in the records of the Company or any transfer agent or registrar for the Rights shall be the record holders thereof.

(b) On the Record Date or as soon as practicable thereafter, the Company will send a copy of the Summary of Rights by first-class, postage-prepaid mail, to each record holder of Common Shares as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company's transfer agent and registrar. With respect to certificates for Common Shares outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates registered in the names of the holders thereof together with the Summary of Rights. Until the Distribution Date (or, if earlier, the Expiration Date), the surrender for transfer of any certificate for Common Shares outstanding on the Record Date, with or without a copy of the Summary of Rights, shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

(c) Unless the Board of Directors by resolution adopted at or before the time of the issuance of any Common Shares specifies to the contrary, Rights shall be issued in respect of all Common Shares that are issued after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date or, in certain circumstances provided in Section 22 hereof, after the Distribution Date. Certificates representing such Common Shares shall also be deemed to be certificates for Rights, and shall bear the following legend:

THIS CERTIFICATE ALSO EVIDENCES AND ENTITLES THE HOLDER HEREOF TO CERTAIN RIGHTS AS SET FORTH IN A RIGHTS AGREEMENT BETWEEN SILICON VALLEY BANCSHARES AND NORWEST BANK MINNESOTA, N.A., AS THE RIGHTS AGENT, DATED AS OF OCTOBER 22, 1998, (THE "RIGHTS AGREEMENT"), THE TERMS OF WHICH ARE HEREBY INCORPORATED HEREIN BY REFERENCE AND A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF SILICON VALLEY BANCSHARES. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, SUCH RIGHTS WILL BE EVIDENCED BY SEPARATE CERTIFICATES AND WILL NO LONGER BE EVIDENCED BY THIS CERTIFICATE. SILICON VALLEY BANCSHARES WILL MAIL TO THE HOLDER OF THIS CERTIFICATE A COPY OF THE RIGHTS AGREEMENT WITHOUT CHARGE AFTER RECEIPT OF A WRITTEN REQUEST THEREFOR. UNDER CERTAIN CIRCUMSTANCES SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS ISSUED TO, OR HELD BY, ANY PERSON WHO IS, WAS OR BECOMES AN ACQUIRING PERSON OR ANY AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT), WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR BY ANY SUBSEQUENT HOLDER, MAY BECOME NULL AND VOID.

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such

certificate shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

(d) In the event that the Company purchases or acquires any Common Shares after the Record Date but prior to the Distribution Date, any Rights associated with such Common Shares shall be deemed canceled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares which are no longer outstanding.

Section 4. FORM OF RIGHTS CERTIFICATES.

(a) The Rights Certificates (and the forms of election to purchase Common Shares and of assignment to be printed on the reverse thereof) shall be substantially in the form of Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or automated quotation system, on which the Rights may from time to time be listed or included, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall be dated as of the Record Date (or in the case of Rights issued with respect to Common Shares issued by the Company after the Record Date, as of the date of issuance of such Common Shares) and on their face shall entitle the holders thereof to purchase such number of one-thousandths of a Preferred Share as shall be set forth therein at the price set forth therein (such exercise price per one one-thousandth of a Preferred Share being hereinafter referred to as the "EXERCISE PRICE" and the aggregate Exercise Price of all Preferred Shares issuable upon exercise of one Right being hereinafter referred to as the "TOTAL EXERCISE PRICE"), but the number and type of securities purchasable upon the exercise of each Right and the Exercise Price shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Company's Board of Directors has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof, and any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

**THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE
BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN**

ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF THE RIGHTS AGREEMENT.

Section 5. COUNTERSIGNATURE AND REGISTRATION.

(a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its Chief Executive Officer, its Chief Financial Officer, its President or any Vice President, either manually or by facsimile signature, and by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature, and shall have affixed thereto the Company's seal (if any) or a facsimile thereof. The Rights Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificates on behalf of the Company had not ceased to be such officer of the Company; and any Rights Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its office designated for such purposes, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

Section 6. TRANSFER, SPLIT UP, COMBINATION AND EXCHANGE OF RIGHTS CERTIFICATES; MUTILATED, DESTROYED, LOST OR STOLEN RIGHTS CERTIFICATES.

(a) Subject to the provisions of Sections 7(e), 14 and 24 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date, any Rights Certificate or Rights Certificates may be transferred, split up, combined or exchanged for another Rights Certificate or Rights Certificates, entitling the registered holder to purchase a like number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets, as the case may be) as the Rights Certificate or Rights Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Rights Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Rights Certificates to be transferred, split up, combined or exchanged at the principal office of the Rights Agent. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Sections 7(e), 14 and 24 hereof, countersign and deliver to the person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Company

may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will make and deliver a new Rights Certificate of like tenor to the Rights Agent for delivery to the registered holder in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Section 7. EXERCISE OF RIGHTS; EXERCISE PRICE; EXPIRATION DATE OF RIGHTS.

(a) Subject to Sections 7(e), 23(b), 23(c), 24(g), 27(a), 27(b) and 24(b) hereof, the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein) in whole or in part at any time after the Distribution Date and prior to the Close of Business on the Expiration Date by surrender of the Rights Certificate, with the form of election to purchase on the reverse side thereof duly executed, to the Rights Agent at the principal office of the Rights Agent, together with payment of the Exercise Price for each one-thousandth of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) as to which the Rights are exercised.

(b) The Exercise Price for each one-thousandth of a Preferred Share issuable pursuant to the exercise of a Right shall initially be One Hundred and Twenty Dollars (\$120.00), shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase duly executed, accompanied by payment of the Exercise Price for the number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9(e) hereof, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Shares (or make available, if the Rights Agent is the transfer agent for the Preferred Shares) a certificate or certificates for the number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests or (B) if the Company shall have elected to deposit the total number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) issuable upon exercise of the Rights hereunder with a depositary agent, requisition from the depositary agent depositary receipts representing such number of one-thousandths of a Preferred Share (or, following a Triggering Event, other securities, cash or other assets as the case may be) as are to be purchased (in which case certificates for the Preferred Shares (or, following a Triggering Event, other

securities, cash or other assets as the case may be) represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company hereby directs the depository agent to comply with such request, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt thereof, deliver such cash to or upon the order of the registered holder of such Rights Certificate. The payment of the Exercise Price (as such amount may be reduced (including to zero) pursuant to Section 11(a)(iii) hereof) and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9(e) hereof, may be made in cash or by certified bank check, cashier's check or bank draft payable to the order of the Company. In the event that the Company is obligated to issue securities of the Company other than Preferred Shares, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Rights Certificate or to his or her duly authorized assigns, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Triggering Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such (a "POST-EVENT TRANSFEREE"), (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Company's Board of Directors has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e) (a "PRE-EVENT TRANSFEREE") or (iv) any subsequent transferee receiving transferred Rights from a Post-Event Transferee or a Pre-Event Transferee, either directly or through one or more intermediate transferees, shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to ensure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificates or to any other Person as a result of its failure to make any determinations with respect to an Acquiring Person or any of such Acquiring Person's Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder

upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall, in addition to having complied with the requirements of Section 7(a), have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. CANCELLATION AND DESTRUCTION OF RIGHTS CERTIFICATES. All Rights Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. RESERVATION AND AVAILABILITY OF PREFERRED SHARES.

(a) The Company covenants and agrees that it will use its best efforts to cause to be reserved and kept available out of its authorized and unissued Preferred Shares not reserved for another purpose (and, following the occurrence of a Triggering Event, out of its authorized and unissued Common Shares and/or other securities), the number of Preferred Shares (and, following the occurrence of the Triggering Event, Common Shares and/or other securities) that will be sufficient to permit the exercise in full of all outstanding Rights.

(b) If the Company shall hereafter list any of its Preferred Shares on a national securities exchange, then so long as the Preferred Shares (and, following the occurrence of a Triggering Event, Common Shares and/or other securities) issuable and deliverable upon exercise of the Rights may be listed on such exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable (but only to the extent that it is reasonably likely that the Rights will be exercised), all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Triggering Event in which the consideration to be delivered by the Company upon exercise of the Rights is described in Section 11(a)(ii) or Section 11(a)(iii) hereof, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act with respect to the securities purchasable upon exercise of the Rights on an appropriate form,

(ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the date of expiration of the Rights. The Company may temporarily suspend, for a period not to exceed ninety

(90) days after the date set forth in clause (i) of the first sentence of this

Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating, and notify the Rights Agent, that the exercisability of the Rights has been temporarily suspended, as well as a public announcement and notification to the Rights Agent at such time as the suspension is no longer in effect. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction, unless the requisite qualification in such jurisdiction shall have been obtained, or an exemption therefrom shall be available, and until a registration statement has been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Preferred Shares (or other securities of the Company) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such securities (subject to payment of the Exercise Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the original issuance or delivery of the Rights Certificates or of any Preferred Shares (or other securities of the Company) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificates to a person other than, or the issuance or delivery of certificates or depositary receipts for the Preferred Shares (or other securities of the Company) in a name other than that of, the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or to deliver any certificates or depositary receipts for Preferred Shares (or other securities of the Company) upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. RECORD DATE. Each Person in whose name any certificate for a number of one-thousandths of a Preferred Share (or other securities of the Company) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Preferred Shares (or other securities of the Company) represented thereby on, and such certificate shall be dated, the date

upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Exercise Price with respect to which the Rights have been exercised (and any applicable transfer taxes) was made; PROVIDED, HOWEVER, that if the date of such surrender and payment is a date upon which the transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a holder of Preferred Shares (or other securities of the Company) for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. ADJUSTMENT OF EXERCISE PRICE, NUMBER OF SHARES OR NUMBER OF RIGHTS. The Exercise Price, the number and kind of shares or other property covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) Anything in this Agreement to the contrary notwithstanding, in the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Shares payable in Preferred Shares, (B) subdivide the outstanding Preferred Shares, (C) combine the outstanding Preferred Shares (by reverse stock split or otherwise) into a smaller number of Preferred Shares, or (D) issue any shares of its capital stock in a reclassification of the Preferred Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then, in each such event, except as otherwise provided in this Section 11 and Section 7(e) hereof: (1) the Exercise Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Exercise Price thereafter shall equal the result obtained by dividing the Exercise Price in effect immediately prior to such time by a fraction (the "ADJUSTMENT FRACTION"), the numerator of which shall be the total number of Preferred Shares (or shares of capital stock issued in such reclassification of the Preferred Shares) outstanding immediately following such time and the denominator of which shall be the total number of Preferred Shares outstanding immediately prior to such time; PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of such Right; and (2) the number of one-thousandths of a Preferred Share (or share of such other capital stock) issuable upon the exercise of each Right shall equal the number of one-thousandths of a Preferred Share (or share of such other capital stock) as was issuable upon exercise of a Right immediately prior to the occurrence of the event described in clauses (A)-(D) of this Section 11(a)(i), multiplied by the Adjustment Fraction; provided, however, that, no such adjustment shall be made pursuant to this Section 11(a)(i) to the extent that there shall have simultaneously occurred an event described in clause (A), (B), (C) or (D) of Section 11(n) with a proportionate adjustment being made thereunder. Each Common Share that shall become outstanding after an adjustment has been made pursuant to this Section 11(a)(i) shall have associated with it the number of Rights, exercisable at the Exercise Price and for the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as one Common Share has associated with it immediately following the adjustment made pursuant to this Section 11(a)(i).

(ii) Subject to Section 24 of this Agreement, in the event a Triggering Event shall have occurred, then promptly following such Triggering Event each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive for each Right, upon exercise thereof in accordance with the terms of this Agreement and payment of the Exercise Price in effect immediately prior to the occurrence of the Triggering Event, in lieu of a number of one-thousandths of a Preferred Share, such number of Common Shares of the Company as shall equal the result obtained by multiplying the Exercise Price in effect immediately prior to the occurrence of the Triggering Event by the number of one-thousandths of a Preferred Share for which a Right was exercisable (or would have been exercisable if the Distribution Date had occurred) immediately prior to the first occurrence of a Triggering Event, and dividing that product by 50% of the Current Per Share Market Price for Common Shares on the date of occurrence of the Triggering Event; provided, however, that the Exercise Price and the number of Common Shares of the Company so receivable upon exercise of a Right shall be subject to further adjustment as appropriate in accordance with Section 11(e) hereof to reflect any events occurring in respect of the Common Shares of the Company after the occurrence of the Triggering Event.

(iii) In lieu of issuing Common Shares in accordance with

Section 11(a)(ii) hereof, the Company may, if the Company's Board of Directors determines that such action is necessary or appropriate and not contrary to the interest of holders of Rights and, in the event that the number of Common Shares which are authorized by the Company's Articles of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights, or if any necessary regulatory approval for such issuance has not been obtained by the Company, the Company shall: (A) determine the excess of (1) the value of the Common Shares issuable upon the exercise of a Right (the "CURRENT VALUE") over (2) the Exercise Price (such excess, the "SPREAD") and (B) with respect to each Right, make adequate provision to substitute for such Common Shares, upon exercise of the Rights, (1) cash, (2) a reduction in the Exercise Price,

(3) other equity securities of the Company (including, without limitation, shares or units of shares of any series of preferred stock which the Company's Board of Directors has deemed to have the same value as Common Shares (such shares or units of shares of preferred stock are herein called "COMMON STOCK EQUIVALENTS")), except to the extent that the Company has not obtained any necessary shareholder or regulatory approval for such issuance, (4) debt securities of the Company, except to the extent that the Company has not obtained any necessary shareholder or regulatory approval for such issuance,

(5) other assets or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Company's Board of Directors based upon the advice of a nationally recognized investment banking firm selected by the Company's Board of Directors; PROVIDED, HOWEVER, if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Triggering Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "SECTION 11(a)(ii) TRIGGER DATE"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Exercise Price, Common Shares (to the extent available), except to the extent that the Company has not obtained any necessary shareholder or regulatory approval for such issuance, and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If

the Company's Board of Directors shall determine in good faith that it is likely that sufficient additional Common Shares could be authorized for issuance upon exercise in full of the Rights or that any necessary regulatory approval for such issuance will be obtained, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek shareholder approval for the authorization of such additional shares or take action to obtain such regulatory approval (such period, as it may be extended, the "SUBSTITUTION PERIOD"). To the extent that the Company determines that some action need be taken pursuant to the first and/or second sentences of this

Section 11(a)(iii), the Company (x) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights and

(y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares, to take any action to obtain any required regulatory approval and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this

Section 11(a)(iii), the value of the Common Shares shall be the Current Per Share Market Price of the Common Shares on the Section 11(a)(ii) Trigger Date and the value of any Common Stock Equivalent shall be deemed to have the same value as the Common Shares on such date.

(b) In case the Company shall, at any time after the date of this Agreement, fix a record date for the issuance of rights, options or warrants to all holders of Preferred Shares entitling such holders (for a period expiring within forty-five (45) calendar days after such record date) to subscribe for or purchase Preferred Shares or Equivalent Shares or securities convertible into Preferred Shares or Equivalent Shares at a price per share (or having a conversion price per share, if a security convertible into Preferred Shares or Equivalent Shares) less than the then Current Per Share Market Price of the Preferred Shares or Equivalent Shares on such record date, then, in each such case, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Preferred Shares and Equivalent Shares (if any) outstanding on such record date, plus the number of Preferred Shares or Equivalent Shares, as the case may be, which the aggregate offering price of the total number of Preferred Shares or Equivalent Shares, as the case may be, to be offered or issued (and/or the aggregate initial conversion price of the convertible securities to be offered or issued) would purchase at such current market price, and the denominator of which shall be the number of Preferred Shares and Equivalent Shares (if any) outstanding on such record date, plus the number of additional Preferred Shares or Equivalent Shares, as the case may be, to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Company's Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Preferred Shares and Equivalent Shares owned by or held for the account of the Company shall not be deemed outstanding for the purpose of

any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights, options or warrants are not so issued, the Exercise Price shall be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall, at any time after the date of this Agreement, fix a record date for the making of a distribution to all holders of the Preferred Shares or of any class or series of Equivalent Shares (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular quarterly cash dividend, if any, or a dividend payable in Preferred Shares) or subscription rights, options or warrants (excluding those referred to in Section 11(b)), then, in each such case, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Current Per Share Market Price of a Preferred Share or an Equivalent Share on such record date, less the fair market value per Preferred Share or Equivalent Share (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a Preferred Share or Equivalent Share, as the case may be, and the denominator of which shall be such Current Per Share Market Price of a Preferred Share or Equivalent Share on such record date; PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Exercise Price shall be adjusted to be the Exercise Price which would have been in effect if such record date had not been fixed.

(d) Anything herein to the contrary notwithstanding, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; PROVIDED, HOWEVER, that any adjustments which by reason of this Section 11 (d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a Common Share or other share or one hundred-thousandth of a Preferred Share, as the case may be. Notwithstanding the first sentence of this Section 11(d), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three (3) years from the date of the transaction which requires such adjustment or (ii) the Expiration Date.

(e) If as a result of an adjustment made pursuant to Section 11(a) or 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than Preferred Shares, thereafter the number of such other shares so receivable upon exercise of any Right and, if required, the Exercise Price thereof, shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Shares contained in Sections 11(a), 11(b), 11(c), 11(d), 11(g), 11(h), 11(i), 11(j), 11(k) and 11(l), and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Shares shall apply on like terms to any such other shares.

(f) All Rights originally issued by the Company subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of one-thousandths of a Preferred Share purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(g) Unless the Company shall have exercised its election as provided in Section 11(h), upon each adjustment of the Exercise Price as a result of the calculations made in Section 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of Preferred Shares (calculated to the nearest one hundred-thousandth of a share) obtained by

(i) multiplying (x) the number of Preferred Shares covered by a Right immediately prior to this adjustment, by (y) the Exercise Price in effect immediately prior to such adjustment of the Exercise Price, and (ii) dividing the product so obtained by the Exercise Price in effect immediately after such adjustment of the Exercise Price.

(h) The Company may elect on or after the date of any adjustment of the Exercise Price as a result of the calculations made in Section 11(b) or (c) to adjust the number of Rights, in substitution for any adjustment in the number of Preferred Shares purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one-thousandths of a Preferred Share for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one hundred-thousandth) obtained by dividing the Exercise Price in effect immediately prior to adjustment of the Exercise Price by the Exercise Price in effect immediately after adjustment of the Exercise Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Exercise Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(h), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Exercise Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(i) Irrespective of any adjustment or change in the Exercise Price or the number of Preferred Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per one one-thousandth of a Preferred Share

and the number of one-thousandths of a Preferred Share which were expressed in the initial Rights Certificates issued hereunder.

(j) Before taking any action that would cause an adjustment reducing the Exercise Price below the par or stated value, if any, of the number of one-thousandths of a Preferred Share issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue as fully paid and nonassessable shares such number of one-thousandths of a Preferred Share at such adjusted Exercise Price.

(k) In any case in which this Section 11 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date of the number of one-thousandths of a Preferred Share and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of one-thousandths of a Preferred Share and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; PROVIDED, HOWEVER, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) upon the occurrence of the event requiring such adjustment.

(l) Anything in this Section 11 to the contrary notwithstanding, prior to the Distribution Date, the Company shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any (i) consolidation or subdivision of the Preferred or Common Shares, (ii) issuance wholly for cash of any Preferred or Common Shares at less than the current market price, (iii) issuance wholly for cash of Preferred or Common Shares or securities which by their terms are convertible into or exchangeable for Preferred or Common Shares, (iv) stock dividends or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of its Preferred or Common Shares shall not be taxable to such shareholders.

(m) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Sections 23, 24 or 27 hereof, take (or permit to be taken) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(n) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Common Shares payable in Common Shares, (B) subdivide the outstanding Common Shares, (C) combine the outstanding Common Shares (by reverse stock split or otherwise) into a smaller number of Common Shares, or (D) issue any shares of its capital stock in a reclassification of the Common Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), then, in each such event, except as otherwise provided in this Section 11(a) and Section 7(e) hereof: (1) each Common

Share (or shares of capital stock issued in such reclassification of the Common Shares) outstanding immediately following such time shall have associated with it the number of Rights as were associated with one Common Share immediately prior to the occurrence of the event described in clauses (A)-(D) above; (2) the Exercise Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Exercise Price thereafter shall equal the result obtained by multiplying the Exercise Price in effect immediately prior to such time by a fraction, the numerator of which shall be the total number of Common Shares outstanding immediately prior to the event described in clauses (A)-(D) above, and the denominator of which shall be the total number of Common Shares outstanding immediately after such event; PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of such Right; and (3) the number of one-thousandths of a Preferred Share (or shares of such other capital stock) issuable upon the exercise of each Right outstanding after such event shall equal the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as were issuable with respect to one Right immediately prior to such event. Each Common Share that shall become outstanding after an adjustment has been made pursuant to this Section 11(n) shall have associated with it the number of Rights, exercisable at the Exercise Price and for the number of one-thousandths of a Preferred Share (or shares of such other capital stock) as one Common Share has associated with it immediately following the adjustment made pursuant to this Section 11(n). If an event occurs which would require an adjustment under both this Section 11(n) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(n) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

Section 12. CERTIFICATE OF ADJUSTED EXERCISE PRICE OR NUMBER OF SHARES. Whenever an adjustment is made as provided in Sections 11 and 13 hereof, the Company shall promptly (a) prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (b) file with the Rights Agent and with each transfer agent for the Preferred Shares a copy of such certificate and (c) mail a brief summary thereof to each holder of a Rights Certificate in accordance with Section 26 hereof. Notwithstanding the foregoing sentence, the failure of the Company to make such certification or give such notice shall not affect the validity of such adjustment or the force or effect of the requirement for such adjustment. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment contained therein and shall not be deemed to have knowledge of such adjustment unless and until it shall have received such certificate.

Section 13. CONSOLIDATION, MERGER OR SALE OR TRANSFER OF ASSETS OR EARNING POWER.

(a) In the event that, following a Triggering Event, directly or indirectly:

(i) the Company shall consolidate with, or merge with and into, any other Person (other than a wholly-owned Subsidiary of the Company in a transaction the principal purpose of which is to change the state of incorporation of the Company and which complies with Section 11(m) hereof);

(ii) any Person shall consolidate with the Company, or merge with and into the Company and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such merger, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of any other person (or the Company); or

(iii) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company or one or more of its wholly owned Subsidiaries in one or more transactions, each of which individually (and together) complies with Section 11(m) hereof),

then, concurrent with and in each such case,

(A) each holder of a Right (except as provided in Section 7(e) hereof) shall thereafter have the right to receive, upon the exercise thereof at a price equal to the Total Exercise Price applicable immediately prior to the occurrence of the Section 13 Event in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, nonassessable and freely tradeable Common Shares of the Principal Party (as hereinafter defined), free of any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by dividing such Total Exercise Price by 50% of the Current Per Share Market Price of the Common Shares of such Principal Party on the date of consummation of such Section 13 Event, PROVIDED, HOWEVER, that the Exercise Price and the number of Common Shares of such Principal Party so receivable upon exercise of a Right shall be subject to further adjustment as appropriate in accordance with Section 11(e) hereof;

(B) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement;

(C) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event;

(D) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of its Common Shares) in connection with the consummation of any such transaction as may be necessary to ensure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its Common Shares thereafter deliverable upon the exercise of the Rights; and

(E) upon the subsequent occurrence of any consolidation, merger, sale or transfer of assets or other extraordinary transaction in respect of such Principal Party, each holder of a Right shall thereupon be entitled to receive, upon exercise of a Right and payment of the Total

Exercise Price as provided in this Section 13(a), such cash, shares, rights, warrants and other property which such holder would have been entitled to receive had such holder, at the time of such transaction, owned the Common Shares of the Principal Party receivable upon the exercise of such Right pursuant to this Section 13(a), and such Principal Party shall take such steps (including, but not limited to, reservation of shares of stock) as may be necessary to permit the subsequent exercise of the Rights in accordance with the terms hereof for such cash, shares, rights, warrants and other property.

(F) For purposes hereof, the "earning power" of the Company and its Subsidiaries shall be determined in good faith by the Company's Board of Directors on the basis of the operating earnings of each business operated by the Company and its Subsidiaries during the three fiscal years preceding the date of such determination (or, in the case of any business not operated by the Company or any Subsidiary during three full fiscal years preceding such date, during the period such business was operated by the Company or any Subsidiary).

(b) For purposes of this Agreement, the term "PRINCIPAL PARTY" shall mean:

(i) in the case of any transaction described in clause (i) or

(ii) of Section 13(a) hereof: (A) the Person that is the issuer of the securities into which the Common Shares are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer the Common Shares of which have the greatest aggregate market value of shares outstanding, or (B) if no securities are so issued, (x) the Person that is the other party to the merger, if such Person survives said merger, or, if there is more than one such Person, the Person the Common Shares of which have the greatest aggregate market value of shares outstanding or (y) if the Person that is the other party to the merger does not survive the merger, the Person that does survive the merger (including the Company if it survives) or (z) the Person resulting from the consolidation; and

(ii) in the case of any transaction described in clause

(iii) of Section 13(a) hereof, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if more than one Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred and each such portion would, were it not for the other equal portions, constitute the greatest portion of the assets or earning power so transferred, or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding;

PROVIDED, HOWEVER, that in any such case described in the foregoing clause

(b)(i) or (b)(ii), if the Common Shares of such Person are not at such time or have not been continuously over the preceding 12-month period registered under

Section 12 of the Exchange Act, then (1) if such Person is a direct or indirect Subsidiary of another Person the Common Shares of which are and have been so registered, the term "Principal Party" shall refer to such other Person, or (2) if such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Shares of which are and have been so registered, the term "Principal Party" shall refer to whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding, or (3) if such Person is owned, directly or

indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly by the same Person, the rules set forth in clauses (1) and (2) above shall apply to each of the owners having an interest in the venture as if the Person owned by the joint venture was a Subsidiary of both or all of such joint venturers, and the Principal Party in each such case shall bear the obligations set forth in this Section 13 in the same ratio as its interest in such Person bears to the total of such interests.

(c) The Company shall not consummate any Section 13 Event unless the Principal Party shall have a sufficient number of authorized Common Shares that have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such issuer shall have executed and delivered to the Rights Agent a supplemental agreement confirming that such Principal Party shall, upon consummation of such Section 13 Event, assume this Agreement in accordance with Sections 13(a) and 13(b) hereof, that all rights of first refusal or preemptive rights in respect of the issuance of Common Shares of such Principal Party upon exercise of outstanding Rights have been waived, that there are no rights, warrants, instruments or securities outstanding or any agreements or arrangements which, as a result of the consummation of such transaction, would eliminate or substantially diminish the benefits intended to be afforded by the Rights and that such transaction shall not result in a default by such Principal Party under this Agreement, and further providing that, as soon as practicable after the date of such Section 13 Event, such Principal Party will:

(i) prepare and file a registration statement under the Securities Act with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, use its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date, and similarly comply with applicable state securities laws;

(ii) use its best efforts to list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on a national securities exchange or to meet the eligibility requirements for quotation on Nasdaq and list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on Nasdaq; and

(iii) deliver to holders of the Rights historical financial statements for such Principal Party which comply in all respects with the requirements for registration on Form 10 (or any successor form) under the Exchange Act.

In the event that at any time after the occurrence of a Triggering Event some or all of the Rights shall not have been exercised at the time of a transaction described in this Section 13, the Rights which have not theretofore been exercised shall thereafter be exercisable in the manner described in

Section 13(a) (without taking into account any prior adjustment required by Section 11(a)(ii)).

(d) In case the "Principal Party" for purposes of Section 13(b) hereof has provision in any of its authorized securities or in its certificate of incorporation or by-laws or other instrument

governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue (other than to holders of Rights pursuant to Section 13 hereof), in connection with, or as a consequence of, the consummation of a Section 13 Event, Common Shares or Equivalent Shares of such Principal Party at less than the then Current Per Share Market Price thereof or securities exercisable for, or convertible into, Common Shares or Equivalent Shares of such Principal Party at less than such then Current Per Share Market Price, or (ii) providing for any special payment, tax or similar provision in connection with the issuance of the Common Shares of such Principal Party pursuant to the provisions of Section 13 hereof, then, in such event, the Company hereby agrees with each holder of Rights that it shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been canceled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect in connection with or as a consequence of, the consummation of the proposed transaction.

(e) The Company covenants and agrees that it shall not, at any time after the Distribution Date, effect or permit to occur any Section 13 Event, if (i) at the time or immediately after such Section 13 Event there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights, (ii) prior to, simultaneously with or immediately after such Section 13 Event, the shareholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(b) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates or Associates or (iii) the form or nature of organization of the Principal Party would preclude or limit the exercisability of the Rights.

(f) The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers.

Section 14. FRACTIONAL RIGHTS AND FRACTIONAL SHARES.

(a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable, as determined pursuant to the second sentence of Section 1(j) hereof.

(b) The Company shall not be required to issue fractions of Preferred Shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share) upon exercise of the Rights or to distribute certificates which evidence fractional Preferred Shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share). Interests in fractions of Preferred Shares in integral multiples of one one-thousandth of a Preferred Share may, at the election of the

Company, be evidenced by depositary receipts, pursuant to an appropriate agreement between the Company and a depositary selected by it; PROVIDED, that such agreement shall provide that the holders of such depositary receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Shares represented by such depositary receipts. In lieu of fractional Preferred Shares that are not integral multiples of one one-thousandth of a Preferred Share, the Company shall pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a Preferred Share. For purposes of this Section 14(b), the current market value of a Preferred Share shall be one thousand times the closing price of a Common Share (as determined pursuant to the second sentence of Section 1(j) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares upon the exercise or exchange of Rights. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a Common Share. For purposes of this Section 14(c), the current market value of a Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 1(j) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) The holder of a Right by the acceptance of the Right expressly waives his or her right to receive any fractional Rights or any fractional shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share) upon exercise of a Right.

Section 15. RIGHTS OF ACTION. All rights of action in respect of this Agreement, excepting the rights of action given to the Rights Agent under

Section 18 hereof, are vested in the respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Shares), may, in his or her own behalf and for his or her own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his or her right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

Section 16. AGREEMENT OF RIGHTS HOLDERS. Every holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of the Common Shares;

(b after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office of the Rights Agent, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed; and

(c subject to Sections 6(a) and 7(f) hereof, the Company and the Rights Agent may deem and treat the person in whose name the Rights Certificate (or, prior to the Distribution Date, the associated Common Shares certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificates or the associated Common Shares certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.

Section 17. RIGHTS CERTIFICATE HOLDER NOT DEEMED A SHAREHOLDER. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose to be the holder of the Preferred Shares or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. CONCERNING THE RIGHTS AGENT.

(a The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises. In no event will the Rights Agent be liable for special, indirect, incidental or consequential loss or damage of any kind whatsoever, even if the Rights Agent has been advised of the possibility of such loss or damage.

(b The Rights Agent shall be protected and shall incur no liability for, or in respect of any action taken, suffered or omitted by it in connection with, its administration of this Agreement in reliance upon any Rights Certificate or certificate for the Preferred Shares or Common Shares or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement or other paper or document reasonably

believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons, or otherwise upon the advice of counsel as set forth in Section 20 hereof.

Section 19. MERGER OR CONSOLIDATION OR CHANGE OF NAME OF RIGHTS AGENT.

(a Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; PROVIDED, HOWEVER, that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

(b In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. DUTIES OF RIGHTS AGENT. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the written advice or opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such written advice or opinion.

(b Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of Current Per Share Market Price) be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively

proved and established by a certificate signed by any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder to the Company and any other Person only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any change in the exercisability of the Rights or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13, 23 or 24, or the ascertaining of the existence of facts that would require any such change or adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after receipt by the Rights Agent of a certificate furnished pursuant to Section 12 describing such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Preferred Shares to be issued pursuant to this Agreement or any Rights Certificate or as to whether any Preferred Shares will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent under this Rights Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after

the date specified in such application (which date shall not be less than five

(5) Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. CHANGE OF RIGHTS AGENT. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company and to each transfer agent of the Preferred Shares and the Common Shares by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Preferred Shares and the Common Shares by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his or her Rights Certificate for inspection by the Company), then the registered holder of any

Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation organized and doing business under the laws of the United States or of any state of the United States, in good standing, which is authorized under such laws to exercise corporate trust or shareholder services powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$100 million. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Preferred Shares and the Common Shares, and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. ISSUANCE OF NEW RIGHTS CERTIFICATES. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to Common Shares so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement or upon the exercise, conversion or exchange of other securities of the Company outstanding at the date hereof or upon the exercise, conversion or exchange of securities hereinafter issued by the Company and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; PROVIDED, HOWEVER, that (i) no such Rights Certificate shall be issued and this sentence shall be null and void AB INITIO if, and to the extent that, such issuance or this sentence would create a significant risk of or result in material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued or would create a significant risk of or result in such options' or employee plans' or arrangements' failing to qualify for otherwise available special tax treatment and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. REDEMPTION.

(a) The Company may, at its option and with the approval of the Board of Directors, at any time prior to the earlier of (i) the Distribution Date or (ii) the Close of Business on the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$0.001 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction

occurring after the date hereof (such redemption price being herein referred to as the "REDEMPTION PRICE") and the Company may, at its option, pay the Redemption Price either in Common Shares (based on the Current Per Share Market Price thereof at the time of redemption) or cash. Such redemption of the Rights by the Company may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The date on which the Board of Directors elects to make the redemption effective shall be referred to as the "REDEMPTION DATE."

(b Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights, evidence of which shall have been filed with the Rights Agent, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. The Company shall promptly give public notice of any such redemption; PROVIDED, HOWEVER, that the failure to give or any defect in, any such notice shall not affect the validity of such redemption. Within ten (10) days after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 23 or in Section 24 hereof, and other than in connection with the purchase of Common Shares prior to the Distribution Date.

(c Notwithstanding the provisions of Section 23(a), in the event that a majority of the Board of Directors of the Company is elected by shareholder action by written consent, then until the earlier to occur of (i) 180th day following the effectiveness of such election or (ii) the next regular annual meeting of shareholders of the Company following the effectiveness of such election (including any postponement or adjournment thereof), the Rights shall not be redeemed if such redemption is reasonably likely to have the purpose or effect of facilitating a Transaction with an Interested Person.

Section 24. EXCHANGE.

(a Subject to applicable laws, rules and regulations, and subject to subsection 24(c) below, the Company may, at its option, by action of the Board of Directors, at any time after the occurrence of a Triggering Event, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Common Shares at an exchange ratio of one Common Share per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "EXCHANGE RATIO"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Shares for or pursuant to the terms of any such

plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Shares then outstanding.

(b Immediately upon the action of the Board of Directors ordering the exchange of any Rights pursuant to subsection 24(a) and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of Common Shares equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall give public notice of any such exchange; PROVIDED, HOWEVER, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c In the event that there shall not be sufficient Common Shares issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with Section 24(a), the Company shall either take such action as may be necessary to authorize additional Common Shares for issuance upon exchange of the Rights or alternatively, at the option of a majority of the Board of Directors, with respect to each Right (i) pay cash in an amount equal to the Current Value (as hereinafter defined), in lieu of issuing Common Shares in exchange therefor, or (ii) issue debt or equity securities or a combination thereof, having a value equal to the Current Value, in lieu of issuing Common Shares in exchange for each such Right, where the value of such securities shall be determined by a nationally recognized investment banking firm selected by majority vote of the Board of Directors, or (iii) deliver any combination of cash, property, Common Shares and/or other securities having a value equal to the Current Value in exchange for each Right. For purposes of this Section 24(c) only, the Current Value shall mean the product of the Current Per Share Market Price of Common Shares on the date of the occurrence of the event described above in subparagraph (a), multiplied by the number of Common Shares for which the Right otherwise would be exchangeable if there were sufficient shares available. To the extent that the Company determines that some action need be taken pursuant to clauses (i), (ii) or (iii) of this Section 24(c), the Board of Directors may temporarily suspend the exercisability of the Rights for a period of up to sixty (60) days following the date on which the event described in Section 24(a) shall have occurred, in order to seek any authorization of additional Common Shares and/or to decide the appropriate form of distribution to be made pursuant to the above provision and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended.

(d The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, there shall be paid to the registered holders of the Rights Certificates with regard to which such

fractional Common Shares would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Common Share (as determined pursuant to the second sentence of Section 1(j) hereof).

(e) The Company may, at its option, by majority vote of the Board of Directors, at any time before any Person has become an Acquiring Person, exchange all or part of the then outstanding Rights for rights of substantially equivalent value, as determined reasonably and with good faith by the Board of Directors, based upon the advice of one or more nationally recognized investment banking firms.

(f) Immediately upon the action of the Board of Directors ordering the exchange of any Rights pursuant to subsection 24(e) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of rights in exchange therefor as has been determined by the Board of Directors in accordance with subsection 24(e) above. The Company shall give public notice of any such exchange; PROVIDED, HOWEVER, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the transfer agent for the Common Shares of the Company. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Rights will be effected.

(g) Notwithstanding the provisions of this Section 24, in the event that a majority of the Board of Directors of the Company is elected by shareholder action by written consent, then until the earlier to occur of (i) the 180th day following the effectiveness of such election or (ii) the next regular annual meeting of shareholders of the Company following the effectiveness of such election (including any postponement or adjournment thereof), this Rights shall not be exchanged pursuant hereto if such exchange would be reasonably likely to have the purpose or effect of facilitating a Transaction with an Interested Person.

Section 25. NOTICE OF CERTAIN EVENTS.

(a) In case the Company shall propose to effect or permit to occur any Triggering Event or Section 13 Event, the Company shall give notice thereof to each holder of Rights in accordance with Section 26 hereof at least twenty (20) days prior to occurrence of such Triggering Event or such Section 13 Event.

(b) In case any Triggering Event or Section 13 Event shall occur, then, in any such case, the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Sections 11(a)(ii) and 13 hereof.

Section 26. NOTICES. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Silicon Valley Bancshares 3003 Tasman Drive Santa Clara, California 95054-1191 Attention: General Counsel

with a copy to:

Wilson Sonsini Goodrich & Rosati Professional Corporation 650 Page Mill Road Palo Alto, California 94304-1050 Attention: Larry Sonsini

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Norwest Bank Minnesota, N.A.

161 North Concord Exchange
South St. Paul, Minnesota 55075
Attention: Karri Van Dell

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. SUPPLEMENTS AND AMENDMENTS.

(a) Prior to the occurrence of a Distribution Date, the Company may supplement or amend this Agreement in any respect without the approval of any holders of Rights and the Rights Agent shall, if the Company so directs, execute such supplement or amendment. From and after the occurrence of a Distribution Date, the Company and the Rights Agent may from time to time supplement or amend this Agreement without the approval of any holders of Rights in order to (i) cure any ambiguity, (ii) correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) shorten or lengthen any time period hereunder or (iv) to change or supplement the provisions hereunder in any manner that the Company may deem necessary or desirable and that shall not adversely affect the interests of the holders of Rights (other than an Acquiring Person

or an Affiliate or Associate of an Acquiring Person); PROVIDED, this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person). Upon the delivery of a certificate from an appropriate officer of the Company that states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Shares.

(b) Notwithstanding the provisions of Section 27(a), in the event that a majority of the Board of Directors of the Company is elected by shareholder action by written consent, then until the earlier to occur of (i) the 180th day following the effectiveness of such election or (ii) the next regular annual meeting of shareholders of the Company following the effectiveness of such election (including any postponement or adjournment thereof), this Rights Agreement shall not be supplemented or amended in any manner reasonably likely to have the purpose or effect of facilitating a Transaction with an Interested Person.

Section 28. SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. DETERMINATIONS AND ACTIONS BY THE BOARD OF DIRECTORS, ETC. For all purposes of this Agreement, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board, or the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights Certificates and all other parties and (y) not subject the Board to any liability to the holders of the Rights.

Section 30. BENEFITS OF THIS AGREEMENT. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit

of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares).

Section 31. SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; PROVIDED, HOWEVER, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the Close of Business on the tenth day following the date of such determination by the Board of Directors.

Section 32. GOVERNING LAW. This Agreement and each Right and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

Section 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. DESCRIPTIVE HEADINGS. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

"COMPANY"

SILICON VALLEY BANCSHARES

By: /s/

Name:

Title:

"RIGHTS AGENT"

NORWEST BANK MINNESOTA, N.A.

By: /s/

Name:

Title:

**CERTIFICATE OF DETERMINATION
OF SILICON VALLEY BANCSHARES**

The undersigned, John C. Dean and A. Catherine Ngo do hereby certify:

1. That they are the duly elected and acting President and Secretary, respectively, of Silicon Valley Bancshares, a California corporation (the "CORPORATION").
2. That, pursuant to the resolutions set forth in Paragraph 4 hereof, the Board of Directors of the Corporation has authorized the issuance of, and designated the rights, preferences, privileges and restrictions of 60,000 shares of Series A Participating Preferred Stock.
3. That none of the shares of Series A Participating Preferred Stock have been issued by the Corporation.
4. That pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation of the said Corporation, the said Board of Directors on October 22, 1998 adopted the following resolution creating a series of 60,000 shares of Preferred Stock designated as Series A Participating Preferred Stock:

"RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by its Articles of Incorporation, the Board of Directors does hereby provide for the issue of a series of Preferred Stock of the Corporation and does hereby fix and herein state and express the designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions of such series of Preferred Stock as follows:

Section 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "SERIES A PARTICIPATING PREFERRED STOCK." The number of shares constituting such series shall be 60,000.

Section 2. PROPORTIONAL ADJUSTMENT. In the event the Corporation shall at any time after the issuance of any share or shares of Series A Participating Preferred Stock (i) declare any dividend on Common Stock of the Corporation ("COMMON STOCK") payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series A Participating Preferred Stock.

Section 3. DIVIDENDS AND DISTRIBUTIONS.

(a Subject to the prior and superior right of the holders of any series of Preferred Stock ranking prior and superior to the shares of Series A Participating Preferred Stock with respect to dividends, the holders of shares of Series A Participating Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "QUARTERLY DIVIDEND PAYMENT DATE"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Participating Preferred Stock.

(b The Corporation shall declare a dividend or distribution on the Series A Participating Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(c Dividends shall begin to accrue on outstanding shares of Series A Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 4. VOTING RIGHTS. The holders of shares of Series A Participating Preferred Stock shall have the following voting rights:

(a Each share of Series A Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation.

(b Except as otherwise provided herein or by law, the holders of shares of Series A Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(c Except as required by law, holders of Series A Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 5. CERTAIN RESTRICTIONS.

(a The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of Common Stock after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock unless concurrently therewith it shall declare a dividend on the Series A Participating Preferred Stock as required by Section 3 hereof.

(b Whenever quarterly dividends or other dividends or distributions payable on the Series A Participating Preferred Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock;

(ii declare or pay dividends on, make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with Series A Participating Preferred Stock, except dividends paid ratably on the Series A Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Participating Preferred Stock;

(iv purchase or otherwise acquire for consideration any shares of Series A Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and

preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(c) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 5, purchase or otherwise acquire such shares at such time and in such manner.

Section 6. REACQUIRED SHARES. Any shares of Series A Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein and, in the Articles of Incorporation, as then amended.

Section 7. LIQUIDATION, DISSOLUTION OR WINDING UP. Upon any liquidation, dissolution or winding up of the Corporation, the assets of the Corporation available for distribution shall be distributed as follows: First, the holders of shares of Series A Participating Preferred Stock shall be entitled to receive, prior and in preference to any payment to holders of Common Stock, an aggregate amount per share equal to \$1000.00 plus an amount equal to any accrued and unpaid dividends on such shares of Series A Participating Preferred Stock. Following such payment, the holders of shares of Common Stock shall be entitled to receive an aggregate amount per share equal to \$1.00 plus an amount equal to any accrued and unpaid dividends on such shares of Common Stock. Following the payment of the aforesaid preferential amounts, the remaining assets of the Corporation available for distribution shall be distributed to the holders of Common Stock and Series A Participating Preferred Stock, with the holders of Series A Participating Preferred Stock entitled to receive for each such share 1000 times the aggregate amount to be distributed per share to holders of shares of Common Stock.

Section 8. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

Section 9. NO REDEMPTION. The shares of Series A Participating Preferred Stock shall not be redeemable.

Section 10. RANKING. The Series A Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 11. AMENDMENT. The Articles of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preference or special rights of the Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Participating Preferred Stock, voting separately as a class.

Section 12. FRACTIONAL SHARES. Series A Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Participating Preferred Stock.

RESOLVED FURTHER, that the President or any Vice President and the Secretary or any Assistant Secretary of this corporation be, and they hereby are, authorized and directed to prepare and file a Certificate of Determination in accordance with the foregoing resolution and the provisions of California law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolution."

We further declare under penalty of perjury that the matters set forth in the foregoing Certificate of Determination are true and correct of our own knowledge and that the foregoing Certificate of Determination has been duly approved by the Board of Directors of the Corporation.

Executed at Santa Clara, California, on October 22, 1998.

John C. Dean, President

A. Catherine Ngo, Secretary

EXHIBIT B

FORM OF RIGHTS CERTIFICATE

Certificate No. R- _____ Rights

NOT EXERCISABLE AFTER THE EARLIER OF (i) OCTOBER 22, 2008 (ii) THE DATE TERMINATED BY THE COMPANY OR (iii) THE DATE THE COMPANY EXCHANGES THE RIGHTS PURSUANT TO THE RIGHTS AGREEMENT. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$0.001 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH RIGHTS AGREEMENT.]*

RIGHTS CERTIFICATE

SILICON VALLEY BANCSHARES

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement dated as of October 22, 1998, (the "RIGHTS AGREEMENT"), between Silicon Valley Bancshares, a California corporation (the "COMPANY"), and Norwest Bank Minnesota, N.A. (the "RIGHTS AGENT"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M., New York time, on October 22, 2008 at the principal office of the Rights Agent, or at the office of its successor as Rights Agent, one one-thousandth (1/1,000) of a fully paid non-assessable share of Series A Participating Preferred Stock (the "PREFERRED SHARES"), of the Company, at an Exercise Price of One Hundred and Twenty Dollars (\$120.00) per one-thousandth of a Preferred Share (the "EXERCISE PRICE"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and

* The portion of the legend in bracket shall be inserted only if applicable and shall replace the preceding sentence.

related Certificate duly executed. The number of Rights evidenced by this Rights Certificate (and the number of one-thousandths of a Preferred Share which may be purchased upon exercise hereof) set forth above are the number and Exercise Price as of October 22, 1998 based on the Preferred Shares as constituted at such date. As provided in the Rights Agreement, the Exercise Price and the number and kind of Preferred Shares or other securities which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal executive offices of the Company and the above-mentioned office of the Rights Agent.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Rights Certificate (i) may be redeemed by the Company, at its option, at a redemption price of \$0.001 per Right or (ii) may be exchanged by the Company in whole or in part for Common Shares, substantially equivalent rights or other consideration as determined by the Company.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the principal office of the Rights Agent, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate amount of securities as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No fractional portion of less than one one-thousandth of a Preferred Share will be issued upon the exercise of any Right or Rights evidenced hereby but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Preferred Shares or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of _____, 19____.

ATTEST:

SILICON VALLEY BANCSHARES

By:

A. Catherine Ngo, Secretary

Its:

Countersigned:

NORWEST BANK MINNESOTA, N.A.
as Rights Agent

By:

Its:

FORM OF REVERSE SIDE OF RIGHTS CERTIFICATE

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____, 19____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate is is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person, or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it did did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: _____, 19____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

FORM OF REVERSE SIDE OF RIGHTS CERTIFICATE -- CONTINUED

FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to

exercise the Rights Certificate)

To:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Rights Certificate to purchase the number of one-thousandths of a Preferred Share issuable upon the exercise of such Rights and requests that certificates for such number of one-thousandths of a Preferred Share issued in the name of:

Please insert social security
or other identifying number

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number

(Please print name and address)

Dated: _____, 19____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Rights Certificate [] are [] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of any such Person.

Dated: _____, 19____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

FORM OF REVERSE SIDE OF RIGHTS CERTIFICATE -- CONTINUED

NOTICE

The signature in the foregoing Forms of Assignment and Election must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT C

SHAREHOLDER RIGHTS PLAN SILICON VALLEY BANCSHARES

SUMMARY OF RIGHTS

DISTRIBUTION AND

TRANSFER OF RIGHTS: The Board of Directors has declared a dividend of one Right for eachshare of Silicon Valley Bancshares Common Stock outstanding. Prior to the Distribution Date

RIGHTS CERTIFICATE: referred to below, the Rights will be evidenced by and trade with the certificates for the Common Stock. After the Distribution Date, Silicon Valley Bancshares (the "COMPANY") will mail Rights certificates to the Company's shareholders and the Rights will become transferable apart from the Common Stock.

DISTRIBUTION DATE: Rights will separate from the Common Stock and become exercisable following (a) the tenth day after a person or group acquires beneficial ownership of 10% or more of the Company's Common Stock or (b) the tenth business day (or such later date as may be determined by the Company's Board of Directors) after a person or group announces a tender or exchange offer, the consummation of which would result in ownership by a person or group of 10% or more of the Company's Common Stock.

PREFERRED STOCK PURCHASABLE UPON: After the Distribution Date, each Right will entitle the holder to purchase for \$120.00 (the "EXERCISE PRICE"), a fraction of a share of the Company's Preferred Stock with economic terms similar to that of one share of the Company's Common Stock.

EXERCISE OF RIGHTS:

FLIP-IN: If an acquiror (an "ACQUIRING PERSON") obtains 10% or more of the Company's Common Stock THEN each Right (other than Rights owned by an Acquiring Person or its affiliates) will entitle the holder thereof to purchase, for the Exercise Price, a number of shares of the Company's Common Stock having a then current market value of twice the Exercise Price.

FLIP-OVER:

If, after an Acquiring Person obtains 10% or more of the Company's Common Stock, (a) the Company merges into another entity, (b) an acquiring entity merges into the Company or (c) the Company sells more than 50% of the Company's assets or earning power, THEN each Right (other than Rights owned by an Acquiring Person or its affiliates) will entitle the holder thereof to purchase, for the Exercise Price, a number of shares of Common Stock of the person engaging in the transaction having a then current market value of twice the Exercise Price.

EXCHANGE PROVISION:

At any time after the date an Acquiring Person obtains 10% or more of the Company's Common Stock and prior to the acquisition by the Acquiring Person of 50% of the outstanding Common Stock, the Company's Board of Directors may exchange the Rights (other than Rights owned by the Acquiring Person or its affiliates), in whole or in part, for shares of Common Stock of the Company at an exchange ratio of one share of Common Stock per Right (subject to adjustment). However, if a majority of the Company's Board of Directors is elected by shareholder action by written consent, then for a period of 180 days following such election the Rights cannot be exchanged if such exchange is reasonably likely to have the purpose or effect of facilitating an acquisition of the Company by a person or entity who proposed, nominated or supported a director of the Company so elected by written consent (an "INTERESTED PERSON").

REDEMPTION OF
THE RIGHTS:

Rights will be redeemable at the Company's option for \$0.001 per Right at any time on or prior to public announcement that a Person has acquired beneficial ownership of 10% or more of the Company's Common Stock (the "SHARES ACQUISITION DATE"). However, if a majority of the Company's Board of Directors is elected by shareholder action by written consent, then for a period of 180 days following such election the Rights cannot be redeemed if such redemption is reasonably likely to have the purpose or effect of facilitating an acquisition of the Company by an Interested Person.

EXPIRATION OF
THE RIGHTS:

The Rights expire on the earliest of (a) October 22, 2008 or (b) exchange or redemption of the Rights as described above.

AMENDMENT OF
TERMS OF RIGHTS:

The terms of the Rights and the Rights Agreement may be amended in any respect without the consent of the Rights holders on or prior to the Distribution Date; thereafter, the terms of the Rights and the

Rights Agreement may be amended without the consent of the Rights holders in order to cure any ambiguities or to make changes which do not adversely affect the interests of Rights holders (other than the Acquiring Person). However, if a majority of the Company's Board of Directors is elected by shareholder action by written consent, then for a period of 180 days following such election the Rights Agreement cannot be amended in any manner reasonably likely to have the purpose or effect of facilitating an acquisition of the Company by an Interested Person.

VOTING RIGHTS:

Rights will not have any voting rights.

ANTI-DILUTION
PROVISIONS:

Rights will have the benefit of certain customary anti-dilution provisions.

TAXES:

The Rights distribution should not be taxable for federal income tax purposes. However, following an event which renders the Rights exercisable or upon redemption of the Rights, shareholders may recognize taxable income.

The foregoing is a summary of certain principal terms of the Shareholder Rights Plan only and is qualified in its entirety by reference to the detailed terms of the Rights Agreement dated as of October 22, 1998, between the Company and the Rights Agent.

THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF THE RIGHTS AGREEMENT BETWEEN SILICON VALLEY BANCSHARES AND NORWEST BANK MINNESOTA, N.A. DATED AS OF OCTOBER 22, 1998.

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	California
SVB Leasing Company (inactive)	California
SVB Capital I	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Silicon Valley Bancshares:

We consent to incorporation by reference in the registration statements (Nos. 2-90401, 33-60467, 333-68857, and 33-05489) on Form S-8 and registration statement No. 333-51665 on Form S-3 of Silicon Valley Bancshares of our report dated January 21, 1999, relating to the consolidated balance sheets of Silicon Valley Bancshares and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998, annual report on Form 10-K of Silicon Valley Bancshares.

Mountain View, California

March 15, 1999

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, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	123,001
INT BEARING DEPOSITS	202
FED FUNDS SOLD	399,000
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	1,397,502
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	1,611,921
ALLOWANCE	46,000
TOTAL ASSETS	3,545,452
DEPOSITS	3,269,753
SHORT TERM	0
LIABILITIES OTHER	21,349
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	89,938
OTHER SE	125,927
TOTAL LIABILITIES AND EQUITY	3,545,452
INTEREST LOAN	139,136
INTEREST INVEST	64,787
INTEREST OTHER	21,305
INTEREST TOTAL	225,228
INTEREST DEPOSIT	78,609
INTEREST EXPENSE	78,613
INTEREST INCOME NET	146,615
LOAN LOSSES	37,159
SECURITIES GAINS	5,240
EXPENSE OTHER	83,645
INCOME PRETAX	48,973
INCOME PRE EXTRAORDINARY	28,856
EXTRAORDINARY	0
CHANGES	0
NET INCOME	28,856
EPS PRIMARY	1.42 ¹
EPS DILUTED	1.38 ²
YIELD ACTUAL	5.2
LOANS NON	19,444
LOANS PAST	441
LOANS TROUBLED	0
LOANS PROBLEM	11,100
ALLOWANCE OPEN	37,700
CHARGE OFFS	31,123
RECOVERIES	2,264
ALLOWANCE CLOSE	46,000
ALLOWANCE DOMESTIC	29,663
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	16,337

¹ Represents basic earnings per share

² Represents diluted earnings per share

