

2023 Banking Crisis and Silicon Valley Bank— Causes, Effects & Unanswered Questions

Briefing for California Assembly Committee on Banking & Finance

April 10, 2023



**RICHMAN
CENTER**

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Causes

- **The Economic and Interest Rate Environment Since 2008**
- **The Fed, Inflation and Interest Rates**
- **Silicon Valley Bank's Unique Business Model**
- **Crisis Accelerants**
 - **Poor Risk Management by SVB**
 - **External Factors**
 - **Silvergate Failure**
 - **Moody's and Goldman Fundraising**

Effects

- **Thursday/Friday 3/09-3/10 Deposit Run**
- **DFPI Seizure & Initial FDIC Receivership**
- **Runs On All Banks with High Uninsured Deposit Balances (First Republic, Signature, PacWest, Western Alliance) and Signs of Systemic Meltdown Over Weekend**
- **Fallout for California**
- **Second Government Intervention and Bridge Bank**
- **Sale of Franchise/Assets to First Citizens' Bank**
- **First Republic Bank Impact**

Unanswered Questions

- **What Did Management Know and When?**
- **What Did Board Know and When?**
- **What Did Regulators Know and When?**
- **Impact of Moody's Downgrade and Capital Raise/Securities Sale**
- **Holding Company Liability and Securities Brokerage and Venture Capital Investment Subsidiaries**

Key Policy Issues

- **How Should Management be Treated Given Risk Management Failures?**
- **Should Bank Boards be Required to Have Expert Members?**
- **Did Regulators Have the Right Powers and Could They Have Used Existing Powers More Effectively?**
- **Does the Definition of a Systemic Bank Need to be Revisited?**
- **Should Liquidity and Other Standards Applied to Biggest Banks be Applied to Smaller but Still Large Banks?**

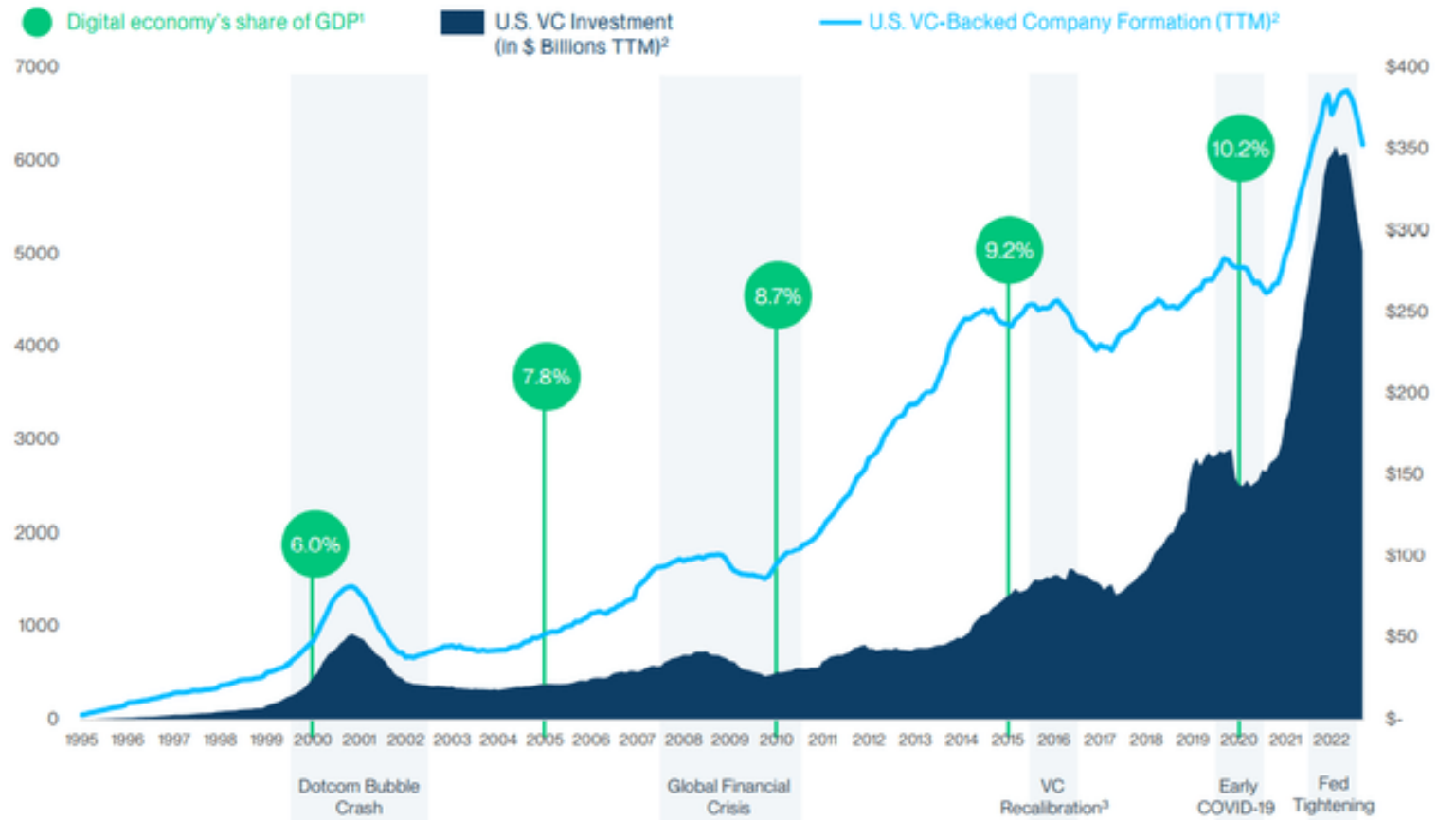
Timeline

- March 8
 - SVB announced it has raised \$500 million from General Atlantic and plans for a \$1.25 billion common stock sale, plus another \$500 million of depository shares.
 - Earlier in the day, Silvergate, a bank popular with the crypto industry, announced it's shutting down operations, a harbinger to what's to come.
- March 9:
 - SVB's stock fell 60% and a growing number of VCs and startups started to pull their money out of the bank.
 - SVB CEO attempted to appease VCs and startups in a conference video call, asking them to "stay calm."
 - The bank also updated Goldman Sachs on deposit outflows, effectively killing the share offering.
 - By the end of the day, customers had initiated \$42 billion in withdrawals, making it the largest bank run in history.
- March 10:
 - U.S. regulators took control of the bank Friday morning, shutting it down, and announced plans to liquidate and pay off insured depositors and provide some payment to uninsured depositors
- March 12:
 - Bids to acquire SVB were due on Sunday, but there was no sale (the FDIC reportedly declined the lone bid by an unnamed company).
 - The U.S. government announced it would backstop all SVB deposits.
 - Regulators shut down Signature Bank in New York, citing systemic risk.
- March 13:
 - SVB's U.K. arm is sold to HSBC for £1.
 - First Republic Bank's stock plunges 60% as the market got jittery about a broader banking crisis. Other regional banks also saw stock drops.
 - SVB reopens for business as the newly set up Silicon Valley Bridge Bank.
 - The Fed announces a review of SVB's failure.
- March 15:
 - Credit Suisse, who's had its own woes for quite some time, announced it will borrow up to 50 billion Swiss francs (\$53.68 billion) from the Swiss National Bank to strengthen its liquidity.
- March 16:
 - Treasury Secretary Janet Yellen reassured Congress that the U.S. banking system is "sound."
 - 11 banks inject \$30 billion of deposits into First Republic Bank as a show of confidence as it's spent the week trying to avoid SVB's fate.
- March 17:
 - SVB Financial Group files for Ch. 11 bankruptcy protection in the Southern District of New York.
 - Bids in a second attempt to sell SVB are reportedly due (later extended)
- March 27
 - First Citizens' Bank acquires most assets and liabilities of Silicon Valley Bank
 - Operations return to normal

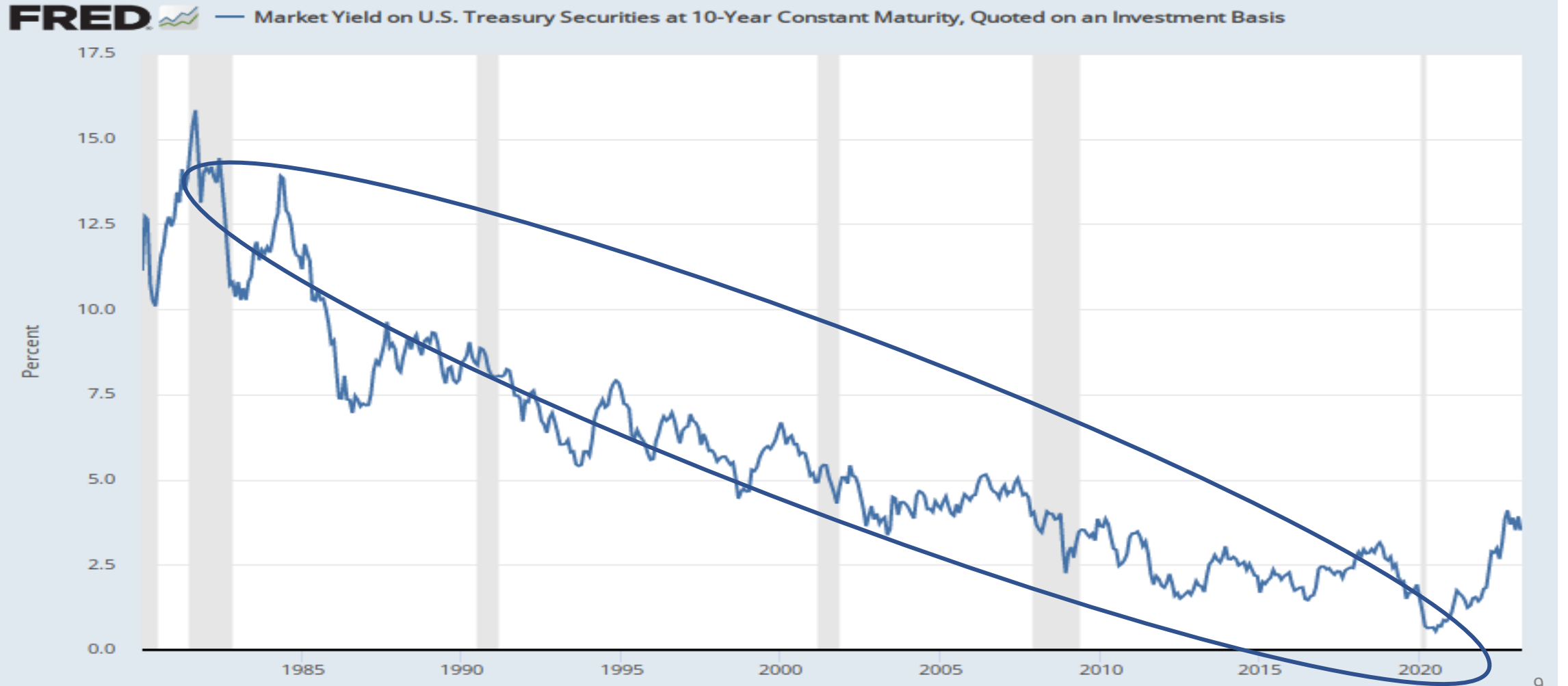
Causes: The Economic and Interest Rate Environment Since 2008

Digital Economy Growth

U.S. VC investment, company formation and the Digital Economy's share of GDP



Falling Long Term Interest Rates for Many Years



Source: Board of Governors of the Federal Reserve System (US)

myf.red/g/11kDf

Bank Deposit Interest Rates Stayed Low Until Very Recently

Average Savings Rates During Growth from 2009 to 2020

The United States experienced unprecedented economic expansion from the end of the Great Recession to early 2020. Though the economy grew, savings rates entered a long, low plateau before climbing in 2018.

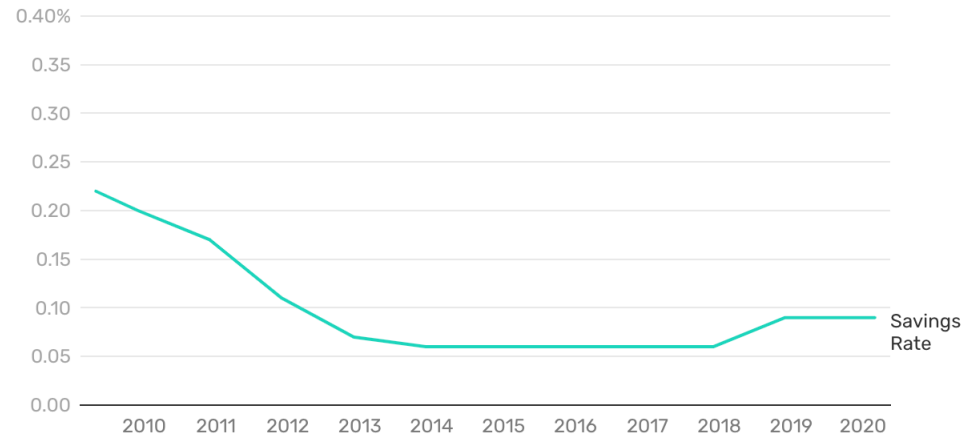
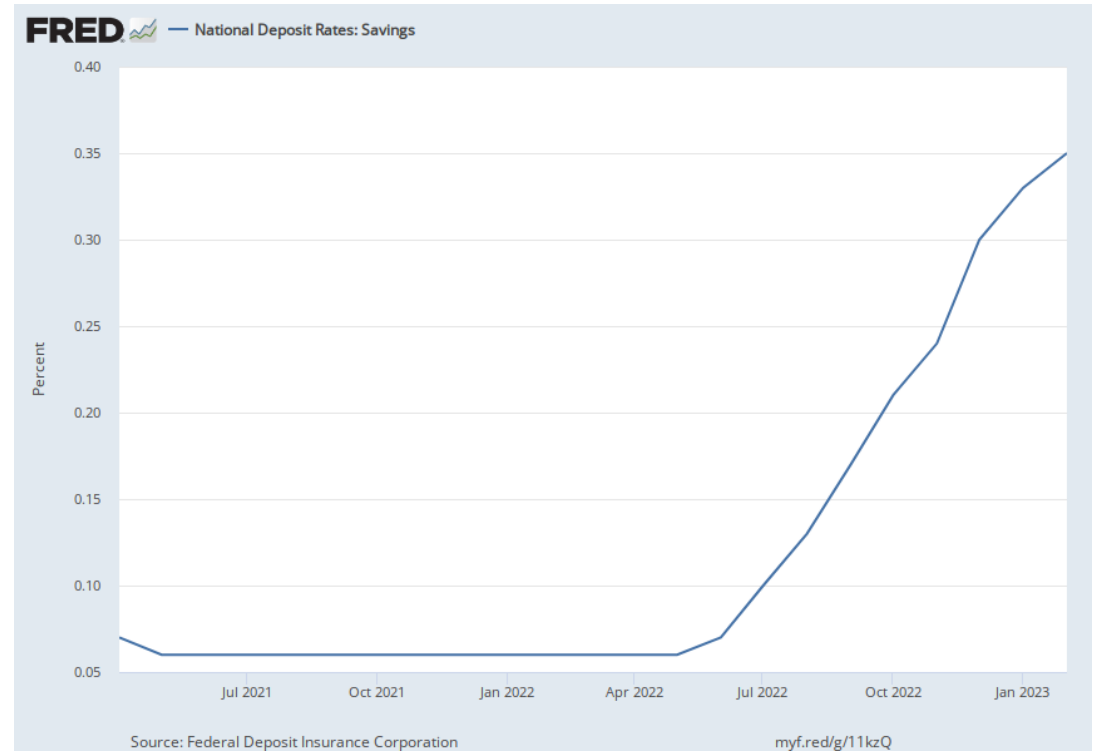


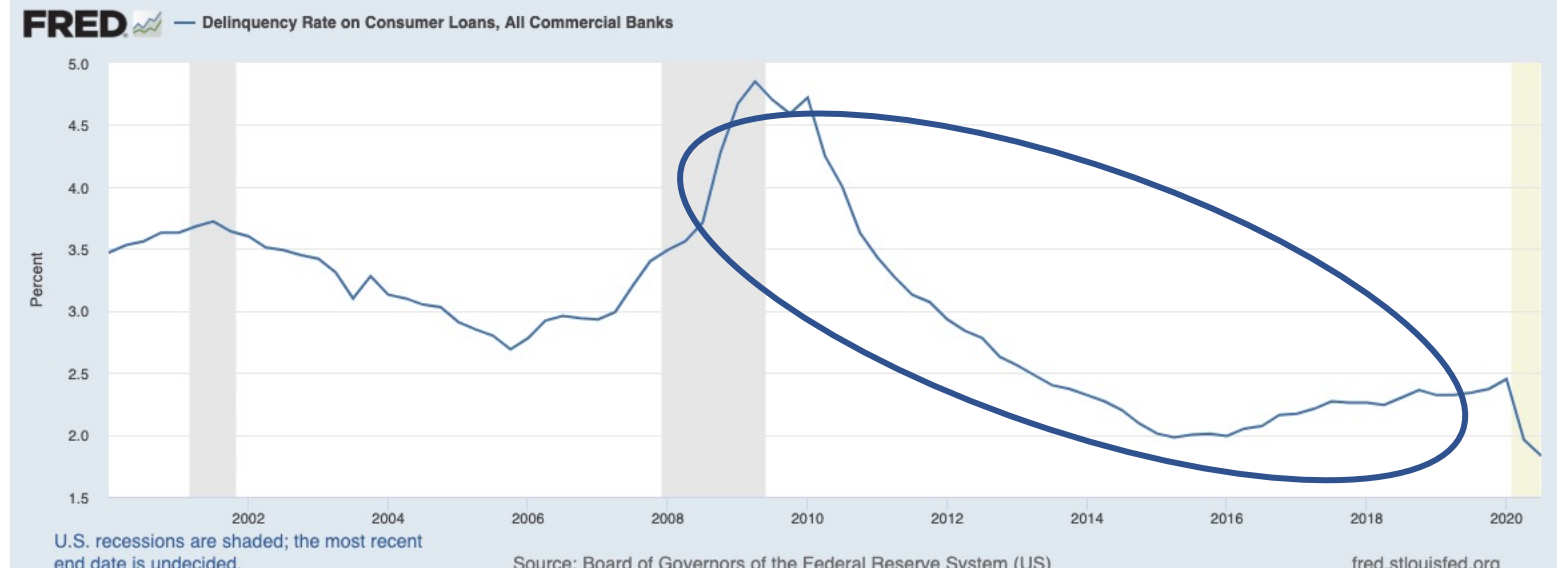
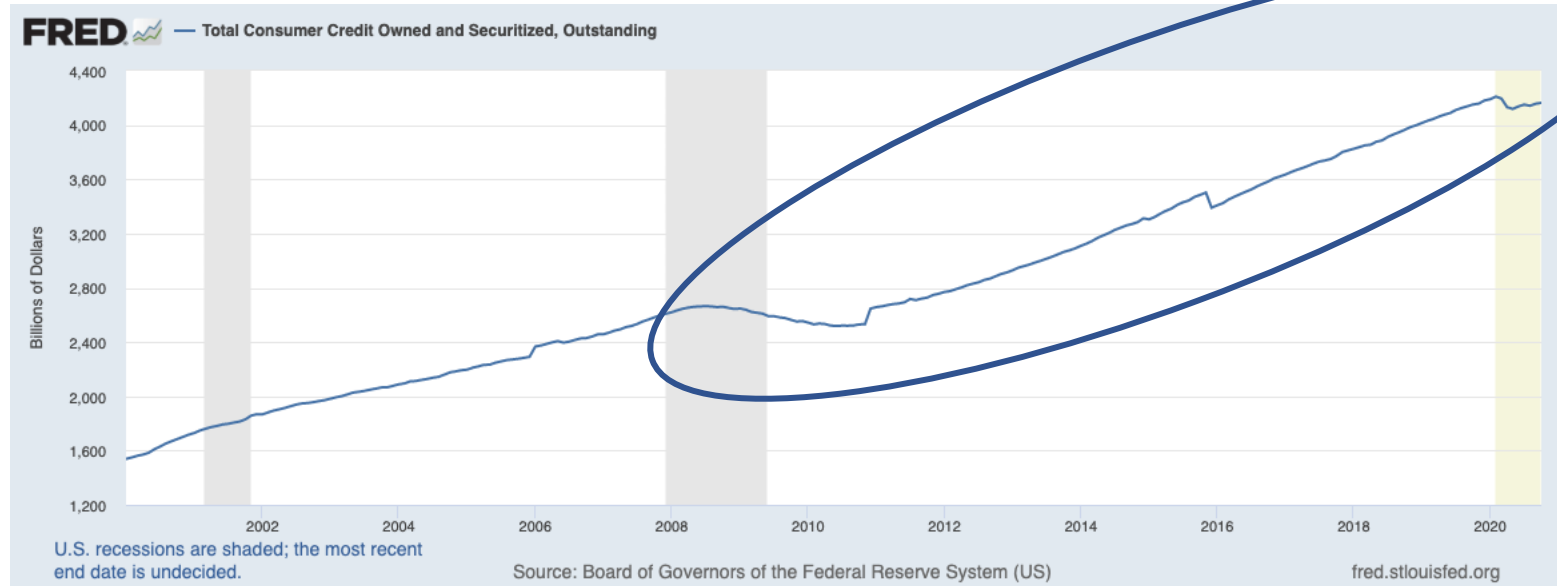
Chart: The Balance • Source: [Federal Deposit Insurance Corporation](#)



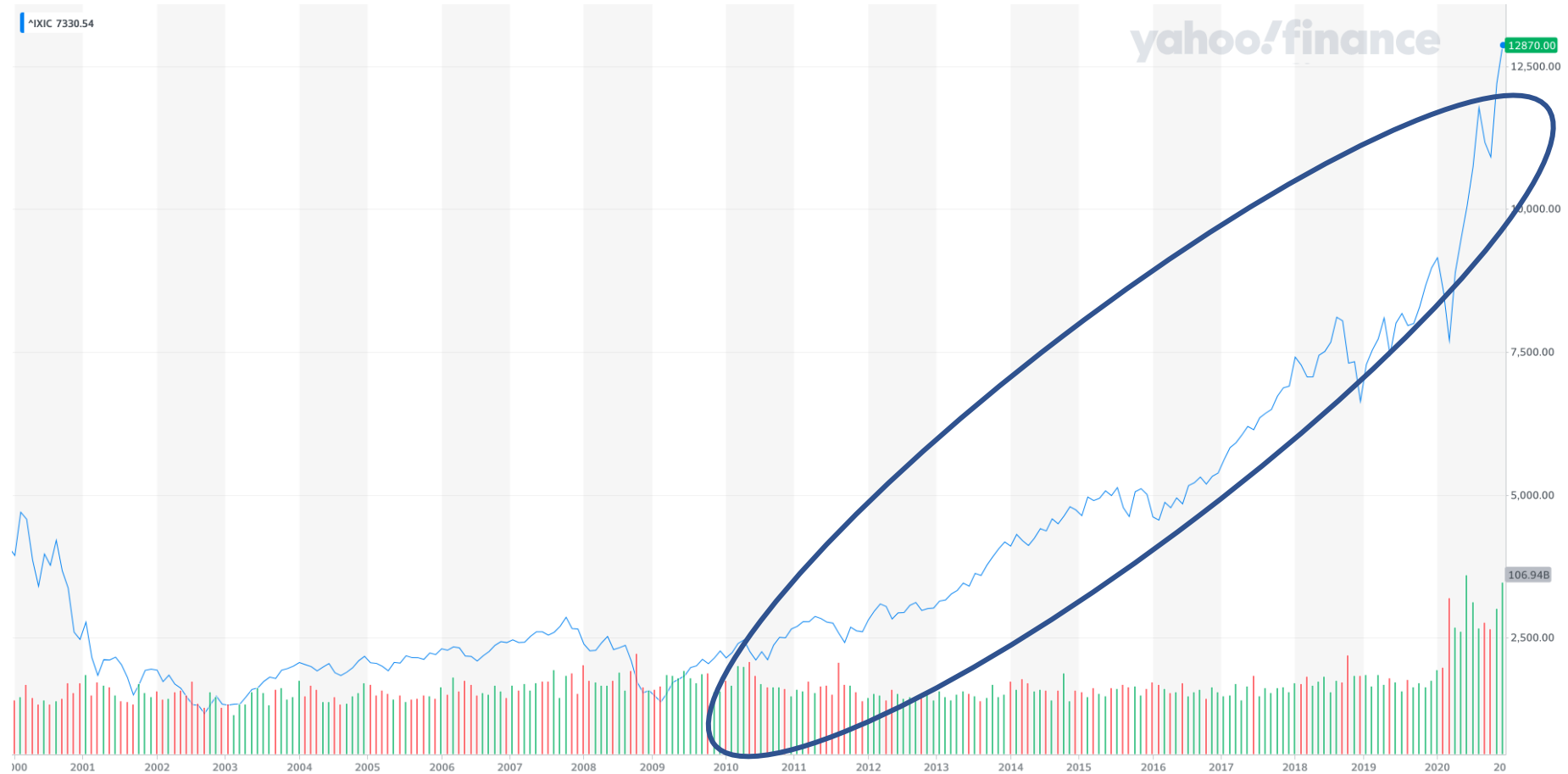
Source: Federal Deposit Insurance Corporation

[myf.red/g/11kzQ](#)

Rapid Credit Growth and Great Performance



Booming Equity Markets for Years—Nasdaq Composite

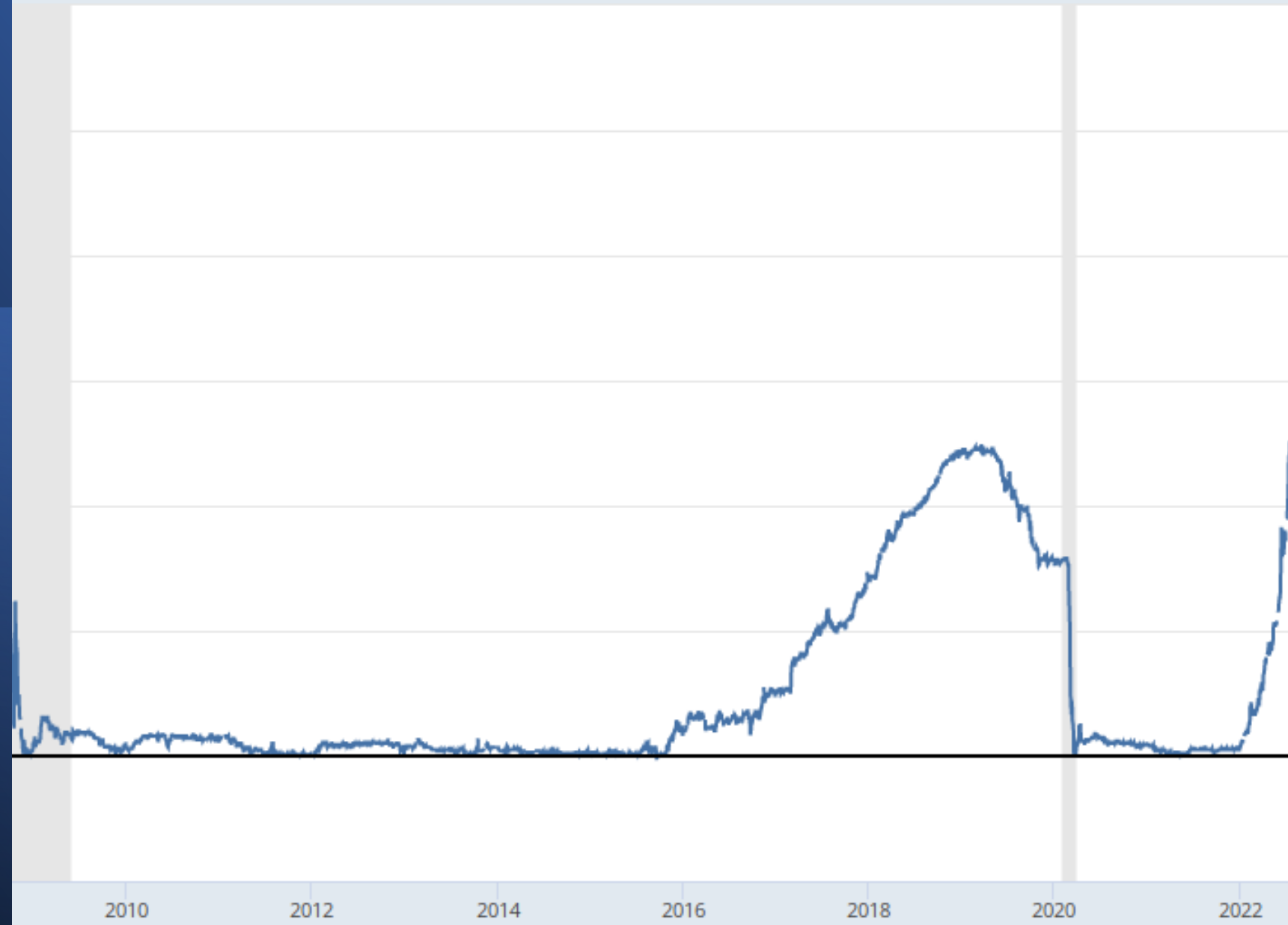


Causes: The Fed, Inflation and Interest Rates



Short-Term
Interest Rates
Began to
Spike
Recently as
Fed Ended QE

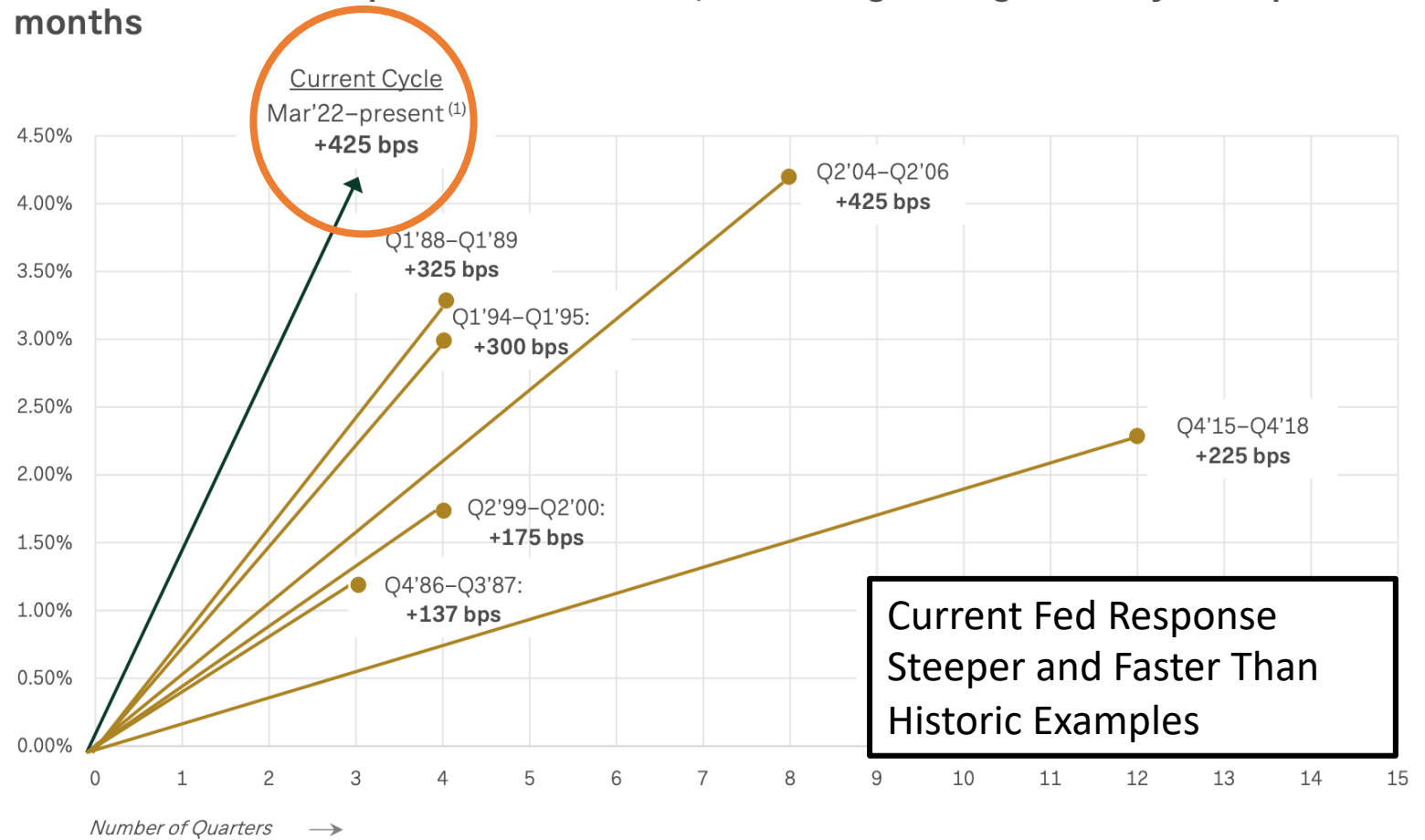
— Market Yield on U.S. Treasury Securities at 3-Month Constant Maturity, Quoted on an Investment Basis



Fed Action Was Faster Than Prior Cycles

An Unprecedented Environment

The Fed has taken unprecedented action, increasing its target rate by 425 bps in 9 months

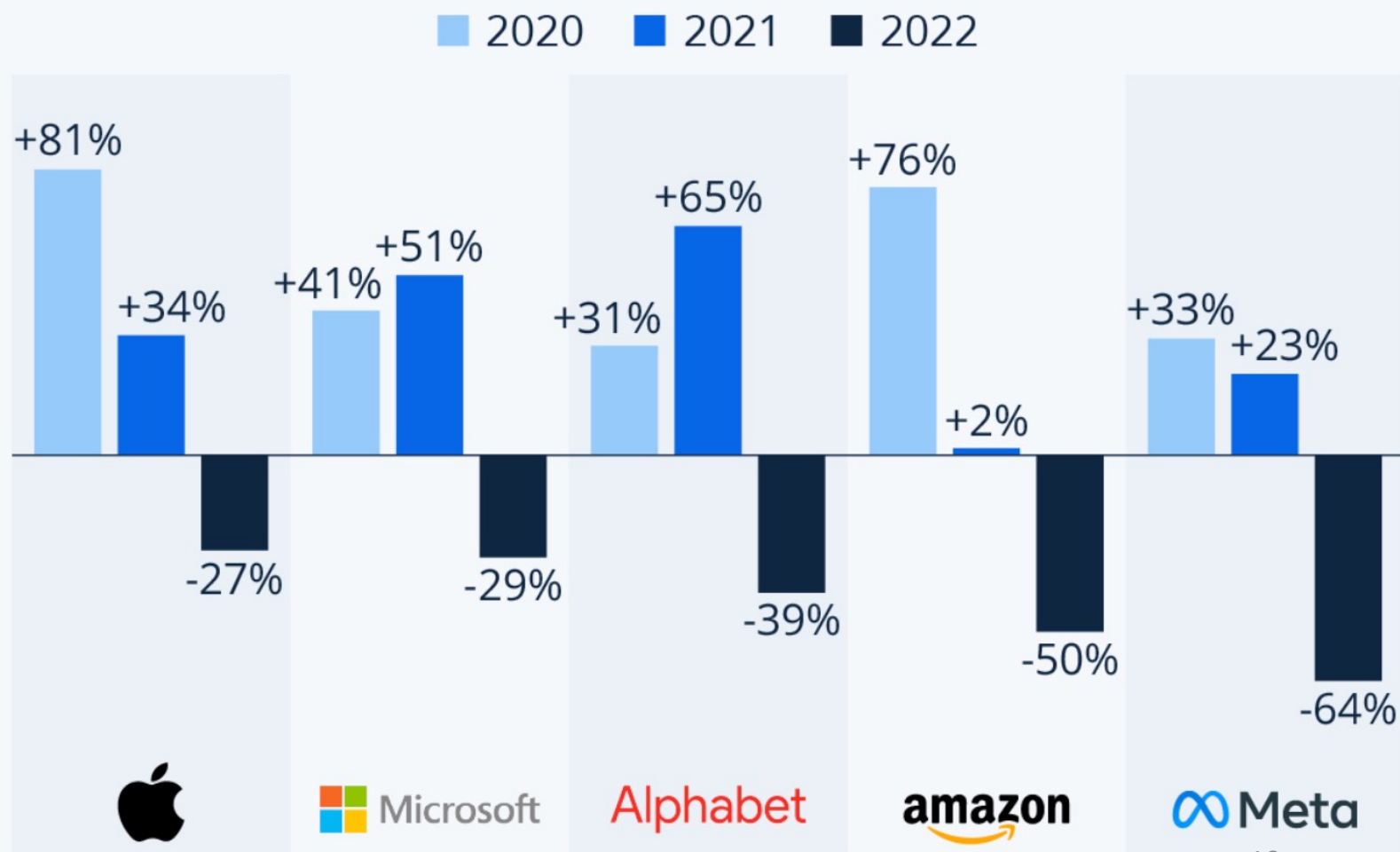


2022: Big Tech's Year of Reckoning

Annual stock price change of selected U.S. tech companies



Correlations:
Tech Market
Reversal Was
Intense



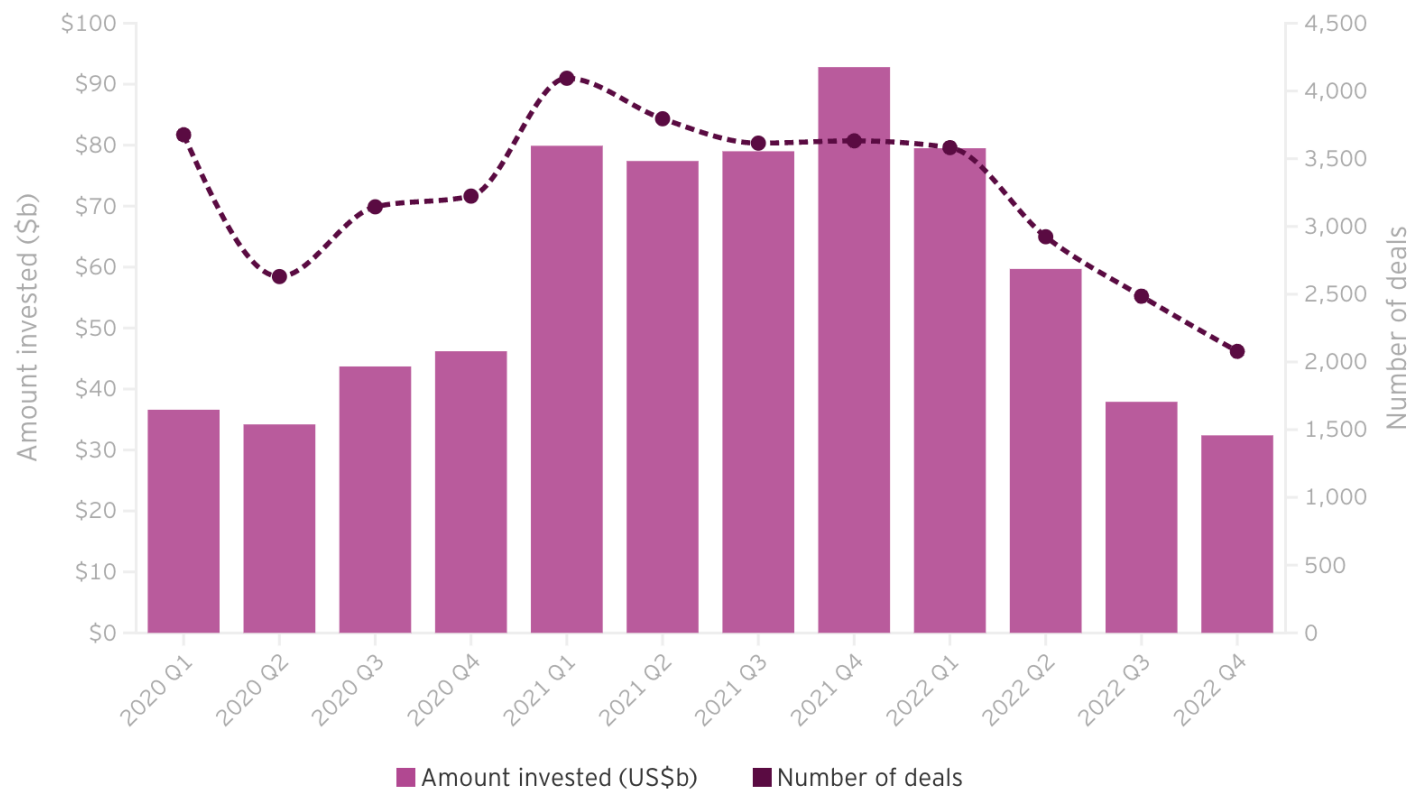
Source: Yahoo Finance

*Expectations for 2023 are
Further Depressed*

Correlations:
Venture
Investment
Declined

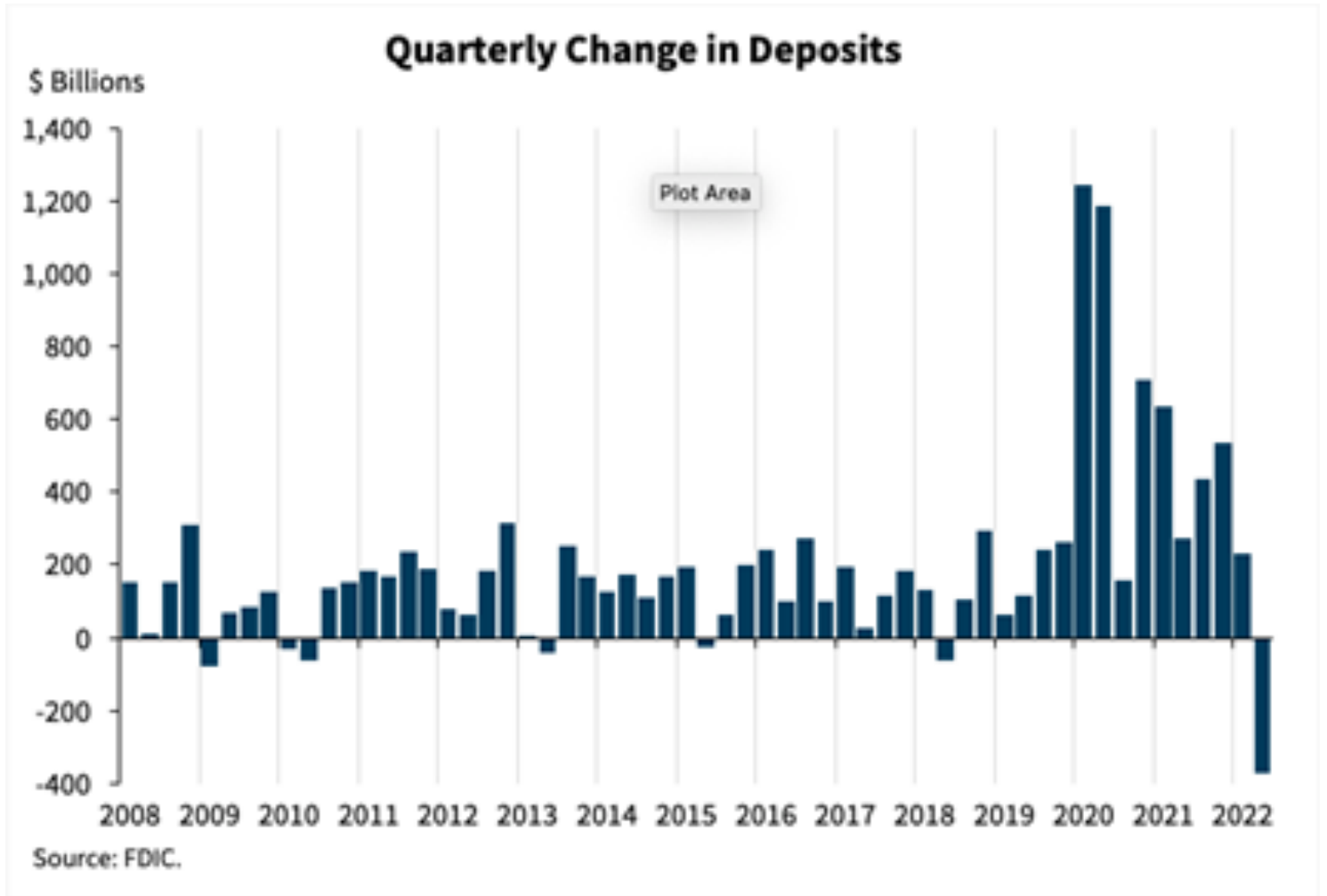
Deals and dollars invested

Equity financings in US VC-backed companies, Q4 2022



Source: [Crunchbase](#) as of January 3, 2023, Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include, but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

Correlations: Deposits Started to Leave Banking System



Causes: Silicon Valley Bank's Unique Business Model

- **Founded in 1980s**
 - **Largest California State-Chartered Bank**
 - **Federal Reserve Bank of SF was Primary Federal Regulator**
 - **DFPI was State Regulator**
- **Uniquely Focused on Tech Industry**
 - **Provided Banking Support for Startups, VCs and Established Tech Companies in US, China and Europe**
 - **Also Prominent in Wine Industry in California**
 - **Undiversified Risk Profile**
- **Volatile Deposit Base Tied to Tech Industry Cycles**
- **Assets/Deposits Grew Enormously During Long Tech Boom Cycle**
- **Assets Primarily Securities Not Loans**
 - **Low Loan-to-Deposit Ratio**
- **Almost All Deposits from Corporations/Business-- 94% Exceeded \$250,000 FDIC Insurance Cap**

A Key to the Innovation Economy

- Around 50% of US venture-backed tech and life sciences companies bank with SVB

Total client funds by client niche¹

Early stage technology

Technology

Early stage life science/
healthcare

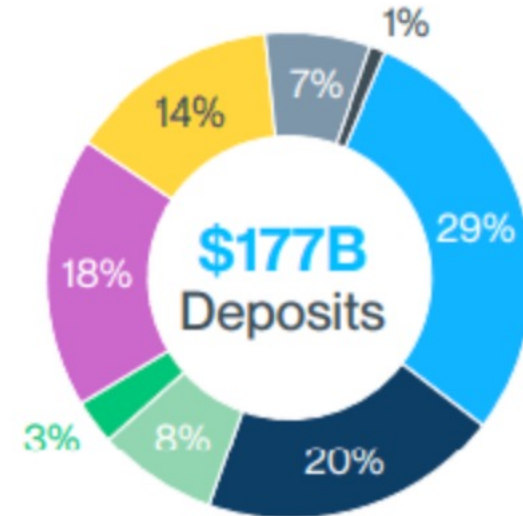
Life science/
healthcare

International²

U.S. Global
Fund Banking

Private Bank

Other



SVB Deposit Base by Customer Type (SVB Q3 Presentation)

Offices and Business Worldwide



Large but Not Giant Bank

Financial highlights Q4 2022**

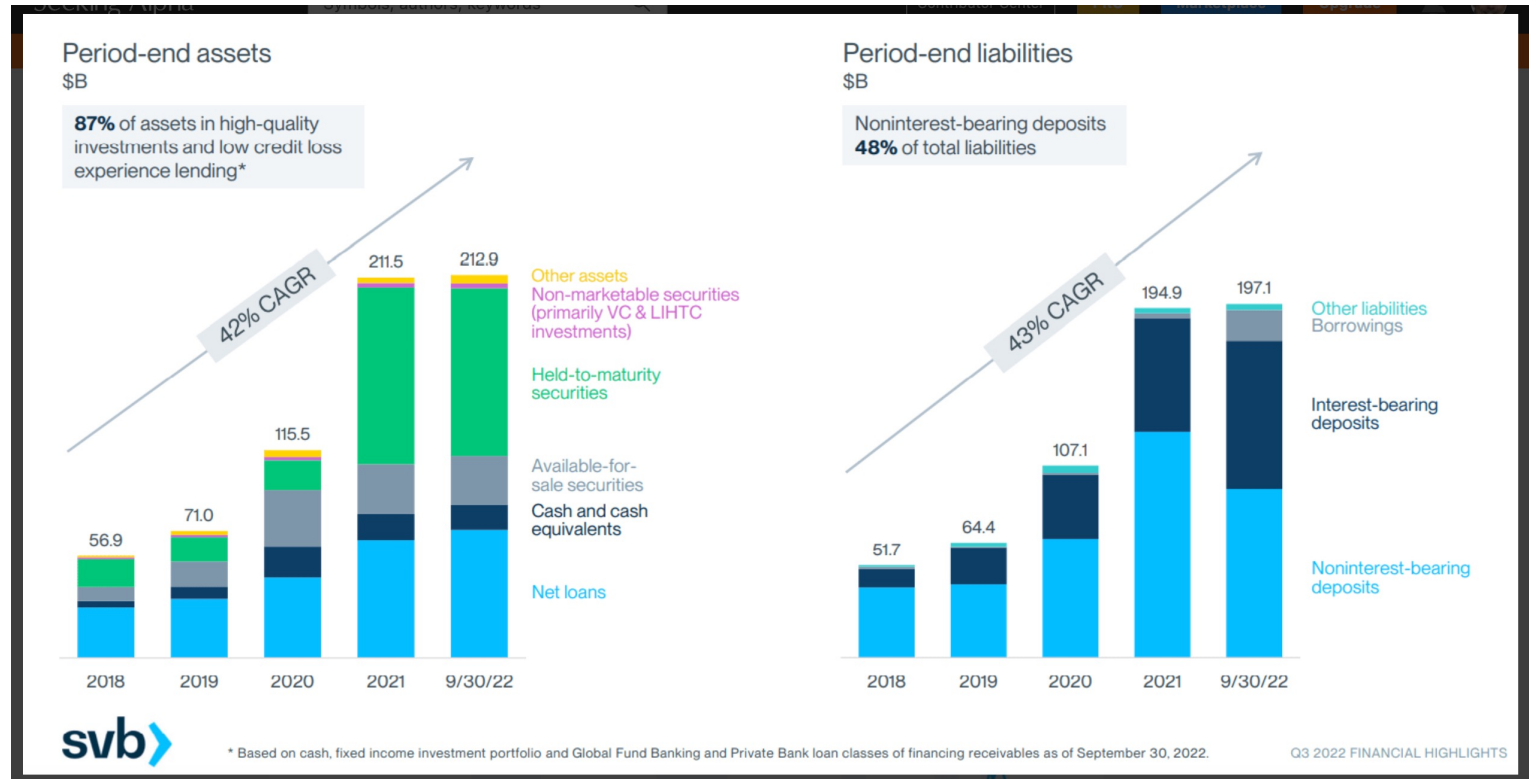
\$212B
Assets

\$74B
Total Loans

\$342B
Total Client Funds

**As reported on a consolidated basis for the period-end December 31, 2022

Recent Accelerated Asset and Deposit Growth



Stock Always Tracked the Tech Markets, Not Other Banks

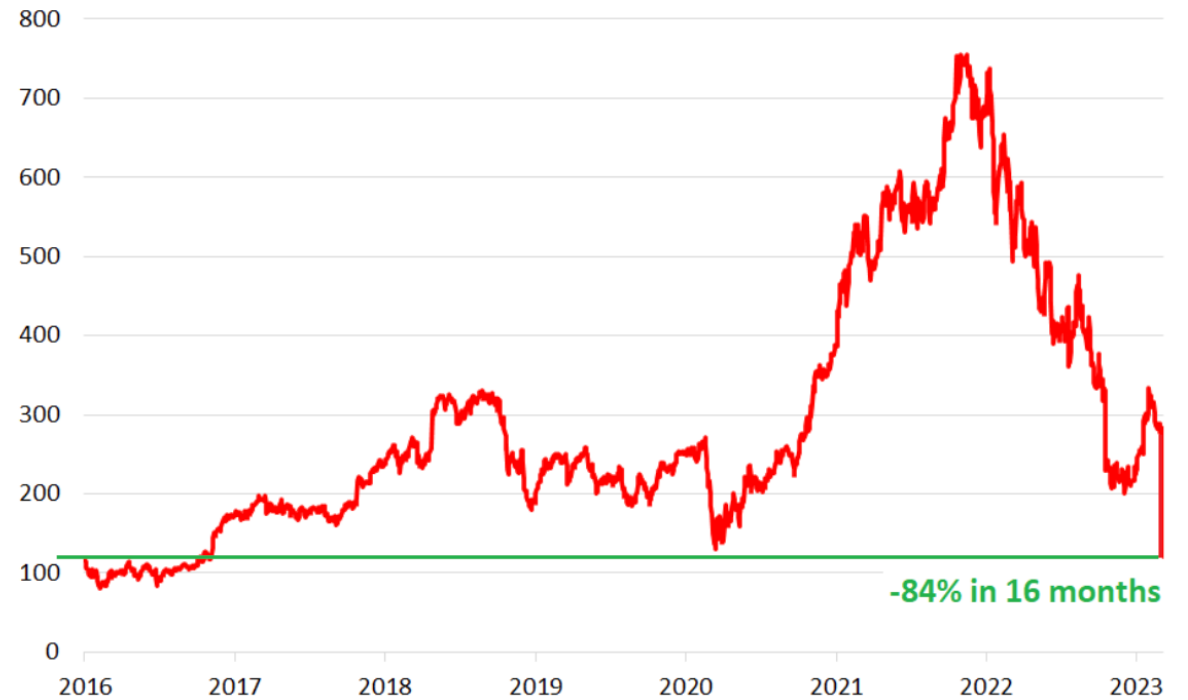
Silicon Valley Bank/SVB Financial: Dotcom Era, \$



Source: YCharts

WOLFSTREET.com

Silicon Valley Bank/SVB Financial [SIVB], \$:

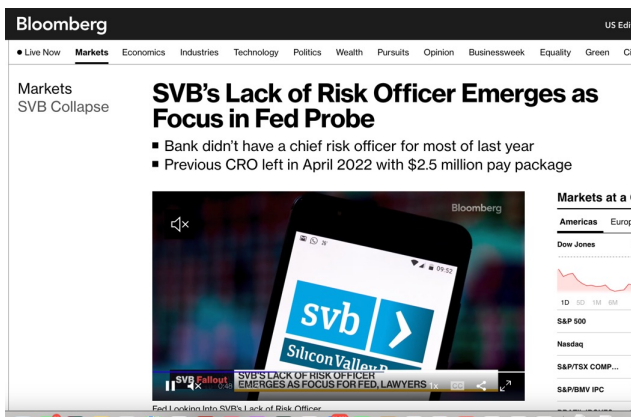


Source: YCharts

WOLFSTREET.com

Causes: Crisis
Accelerants
---Poor Risk
Management
at Silicon
Valley Bank





Poor Risk Management Practices

- Fed Governor Barr: ***“SVB’s failure is a textbook case of mismanagement”***
- SVB’s liquidity risk management practices were deficient.
- Best practice banks seek to understand the sensitivity of their liquidity risk profile to various shocks including contingency liquidity planning scenario exercises.
 - The largest banks go further and are required to calculate the amount of high-quality liquid assets (HQLA) as a percent of stress net cash outflows over a 30-day horizon, referred to as the Liquidity Coverage Ratio (LCR).
 - These banks also must calculate a similar ratio over a one-year horizon on the stability of their funding.
 - But even if SVB had been compliant with LCR, (we’ll never know since they weren’t large enough to require LCR compliance under revised Dodd-Frank rules that they lobbied heavily for) the size of the bank run would likely have resulted in the same outcome.

Silicon Valley Bank [+ Add to myFT](#)

Silicon Valley Bank was warned by BlackRock that risk controls were weak

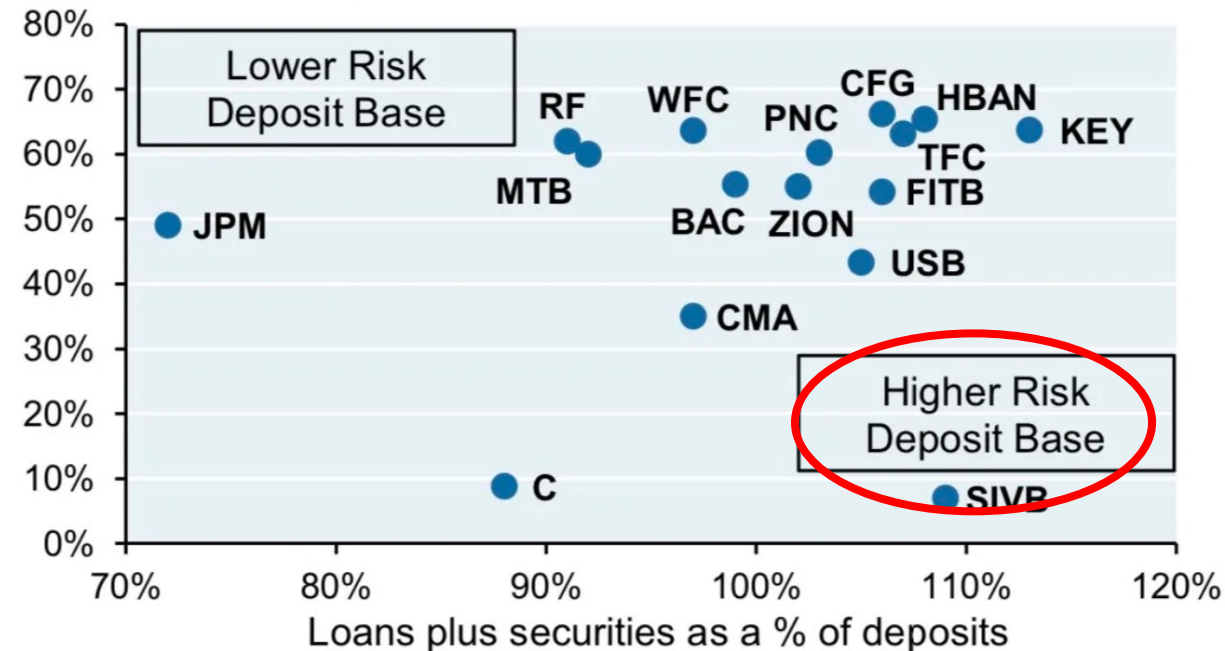
Consultants said systems lagged behind peers more than a year before lender’s collapse fomented a banking crisis

How crazy was Silicon Valley Bank’s zero-hedge strategy?

The Risk in a Nutshell—Volatile Deposits Matched Primarily Against Interest Rate-Sensitive Securities

US bank loan-to-deposit ratios

Estimated retail deposit share of total deposits

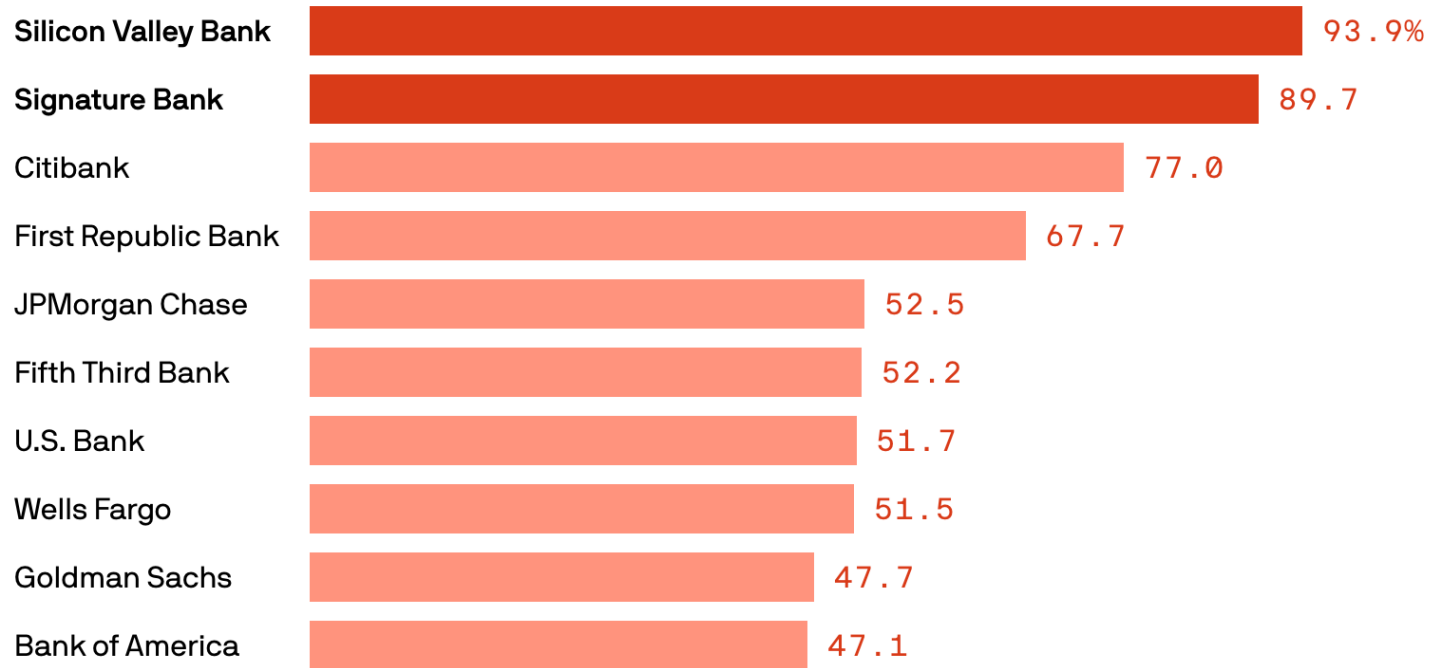


Source: JPMAM. Securities include Hold to Maturity and Available for Sale categories. Q3 2022.

Highest Level of Uninsured Deposits

Percentage of domestic deposits that were uninsured

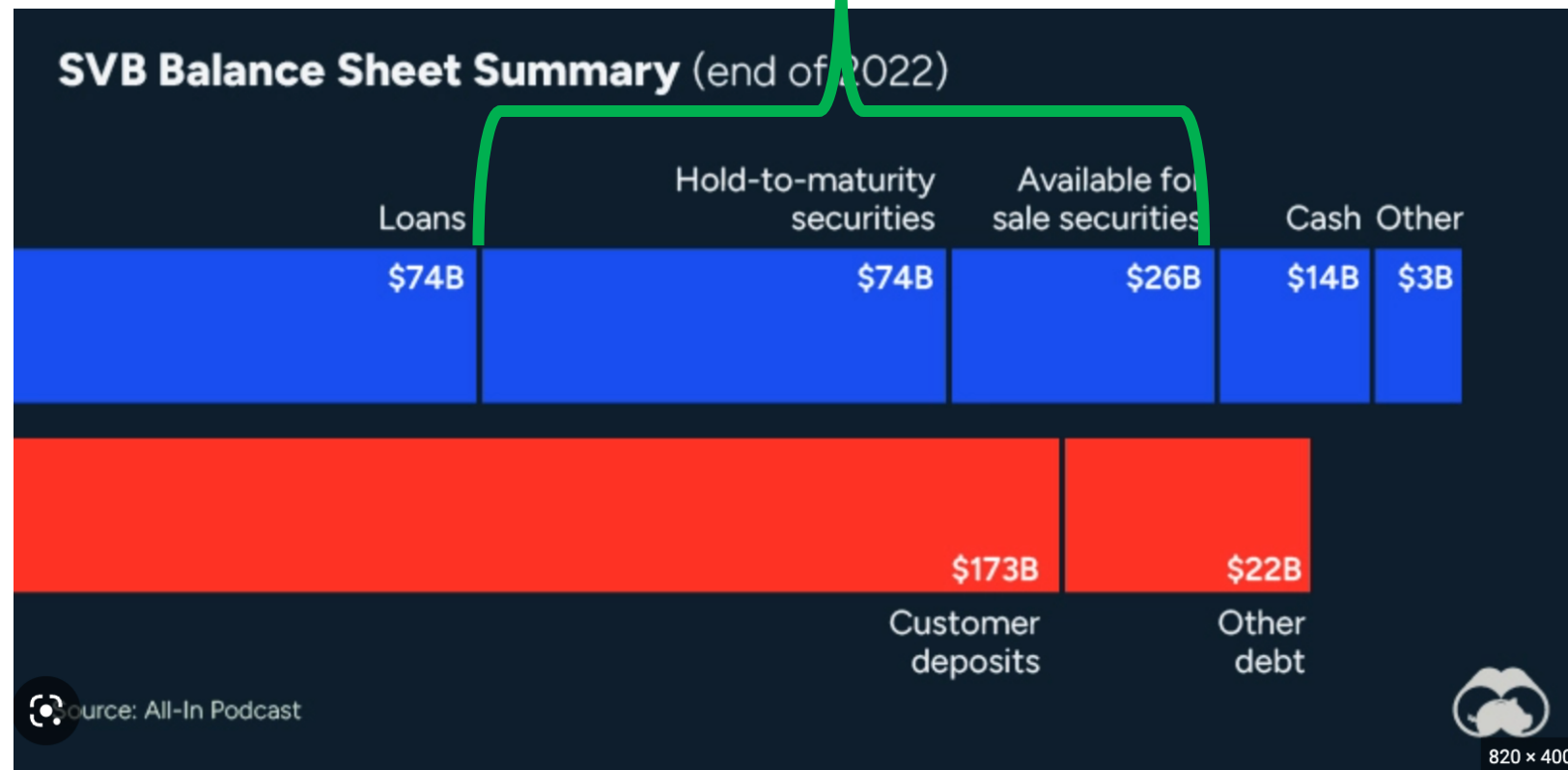
As of Dec. 31, 2022



Data: [S&P Global Market Intelligence](#); Chart: Axios Visuals

Balance Sheet Assets Primarily Securities

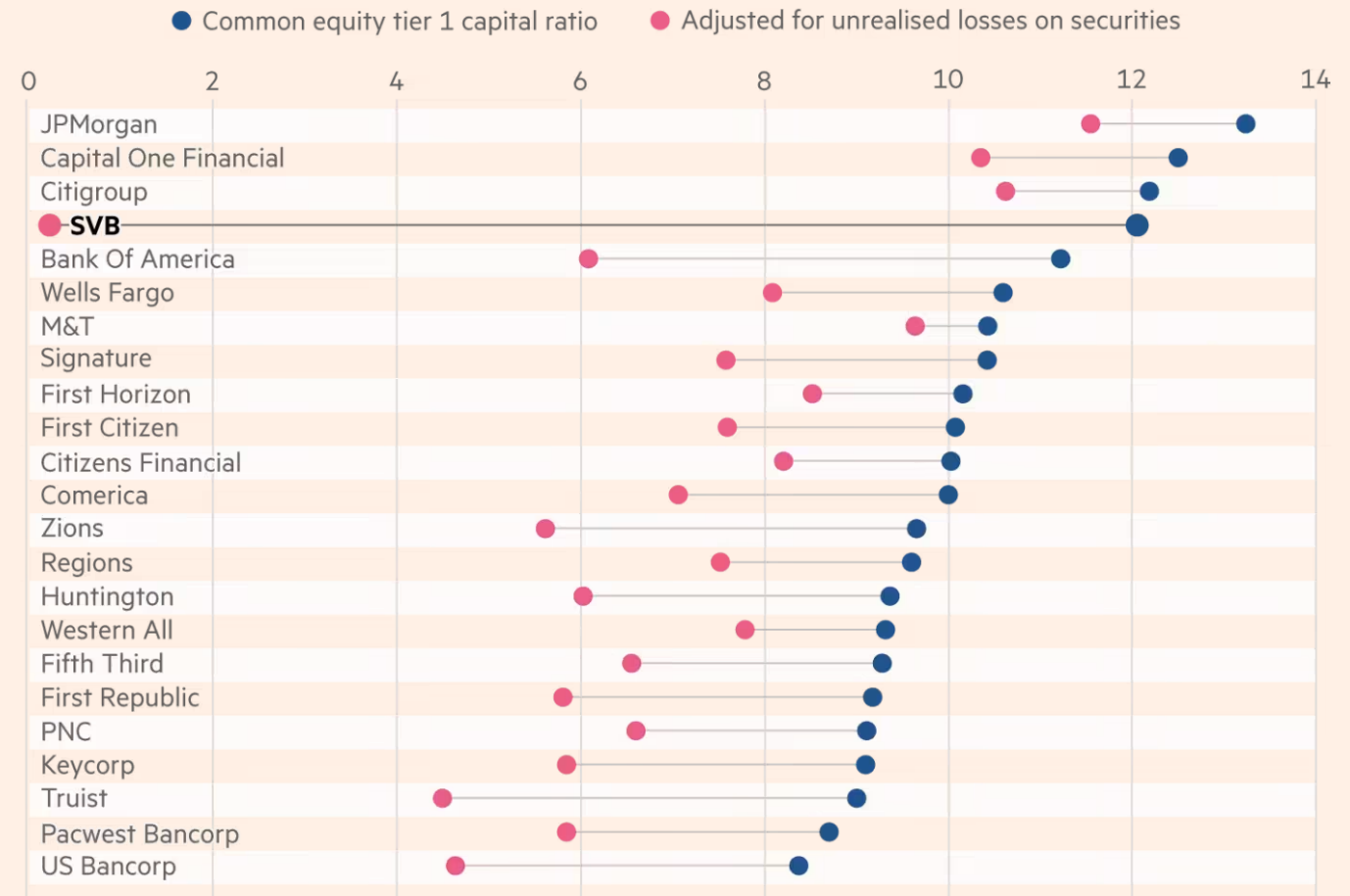
Securities \$100 Billion



Highest Unrealized Losses on Securities

The impact of unrealised losses on Silicon Valley Bank was exceptionally large

Per cent, Q4 2022

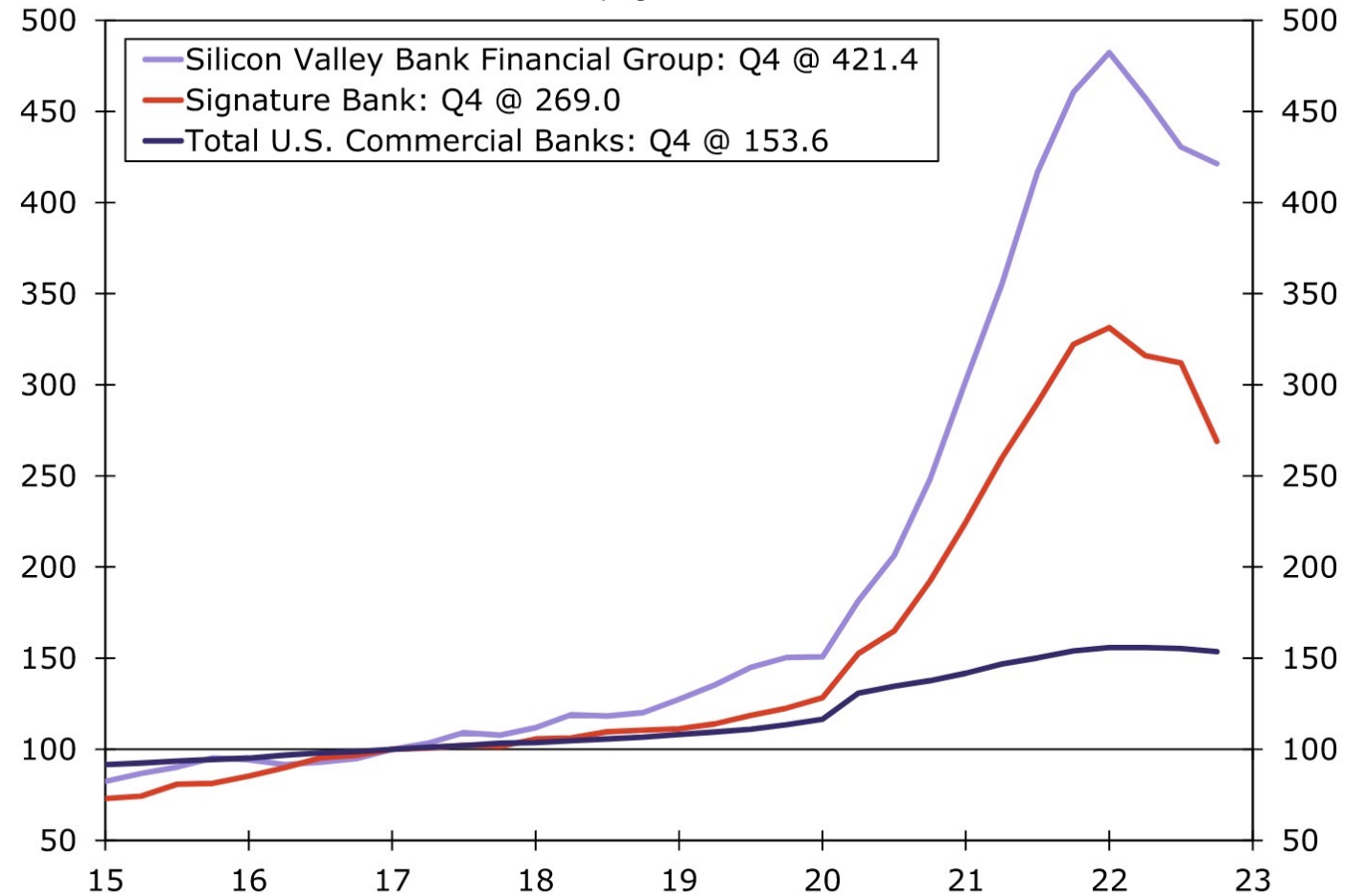


Source: Michael Cembalest/JPMorgan Asset Management
© FT

Deposit Decline Starts at SVB in Mid 2022

Total Deposit Growth

Index, Q1-2017=100



Source: Bloomberg Finance L.P., Federal Reserve Board and Wells Fargo Economics

Causes: Other Silicon Valley Bank Risk Management Failings –Long Term

- **Failure to Diversify Risk Away from Tech Exposure**
- **The Board Lacked Expertise**
 - Most bank boards today are not equipped to challenge management on risks affecting the enterprise.
 - Of the seven board members assigned to SVB’s Risk Committee, only one had any background remotely related to risk management and none, according to the information provided on SVB’s 2023 Proxy Statement ever held a senior risk management role such as CRO.
- **Management Apparently Tried to “Play the Yield Curve” to Increase Earnings**
 - Betting on Rates is a Fundamental Risk Error
 - Ignored History of High Deposit Volatility
 - Kept Most Growth on Balance Sheet Rather Than Pushing Off Deposits During Long Zero-Rate Period, In Contrast to Prior Tech Cycles
 - Matched Deposits with Securities

Causes: Other Silicon Valley Bank Risk Management Failings— Short Term

- **No Chief Risk Officer for Critical Months**
- **Alleged Reversal of Crucial Interest Rate Hedge on Securities to Meet Earnings Target**
- **Alleged Replacement of Liquidity Risk Model When it Gave the “Wrong” Answer About Deposit Volatility**
- **Apparent Decision Not to Shorten Securities Portfolio Duration During Rate Hikes**
- **Lack of Preparation for Run/Scramble to Pledge Securities to Fed Under Emergency TLAC Facility**
- **“Hopium” Approach to Immediate and Existential Risk—“We’ll be OK, CNBC is Saying that the Fed will Reverse Policy and Interest Rates are Going to Decline”**

Causes: Timing and Messaging on Moody's and the Goldman Capital Raise/Securities Restructuring

- **In early March, after Moody's privately warned Silicon Valley Bank that it faced a possible downgrade in the rating of its bonds, the bank called on Goldman Sachs for advice to help it shore up its books.**
- On March 8, Goldman purchased the SVB AFS securities portfolio at a discount to its market value. After the market closed, SVB announced that it had realized a \$1.8 billion loss on the sale, without disclosing the buyer
- Simultaneously, SVB said it would sell \$2.5 billion in shares to raise capital. The capital raise was ultimately unsuccessful
- **"Goldman's plan for the bank had a fatal flaw. It underestimated the danger that a deluge of bad news could spark a crisis of confidence, a development that can quickly fell a bank." --New York Times**

Causes:
 Silvergate
 Bank Failed at
 Same Time as
 SVB Securities
 Sale/Capital
 Raise
 Announced

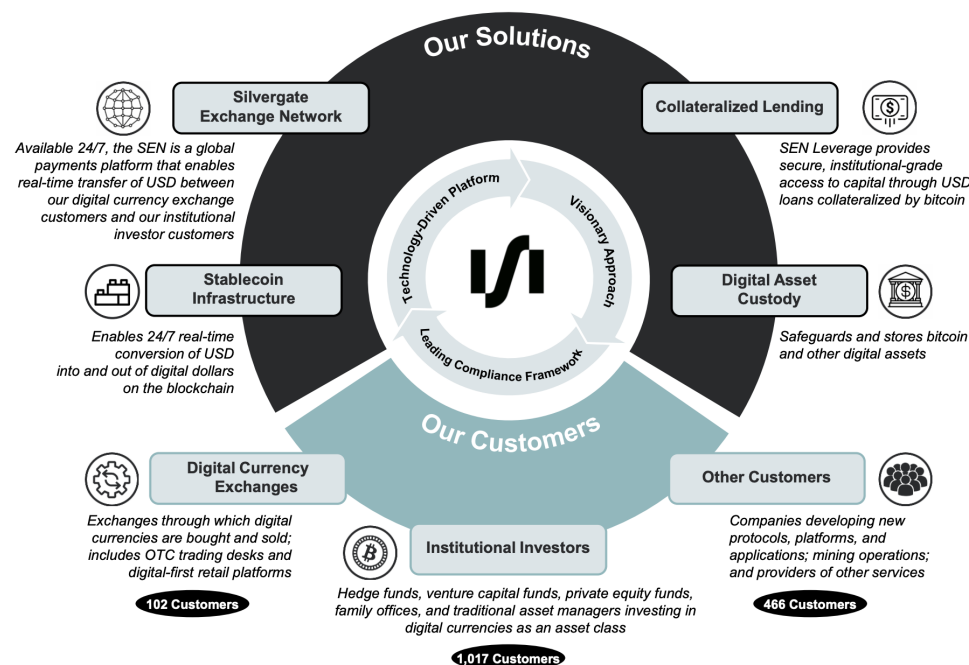
Silvergate Bank Collapses

The California bank's stock fell nearly 44% on Wall Street, after it announced it was going out of business.

LUC OLINGA • MAR 9, 2023 8:07 AM EST



Silvergate is Critical to the Continuing Expansion of the Digital Currency Industry



Note: Customer data as of June 30, 2022.



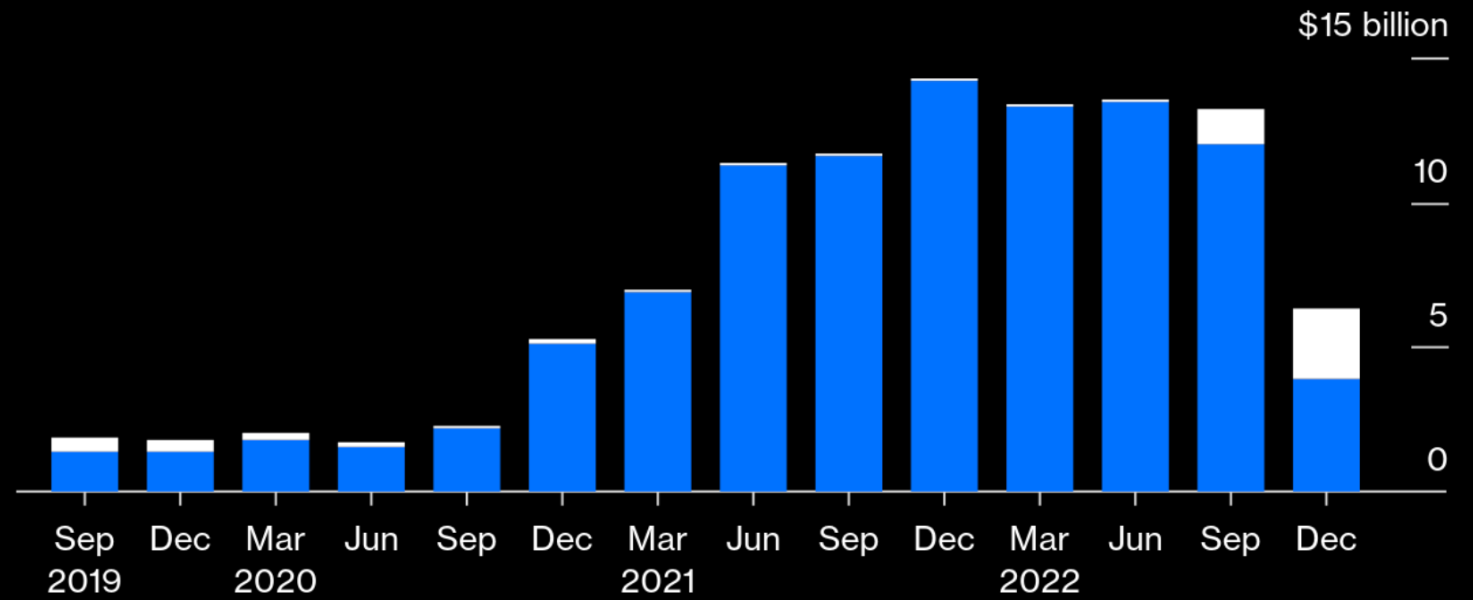
Silergate Bank:
Designed to be
“Safe” Crypto-
Based Bank But
Correlated
Deposit Losses
Caused Quick
Failure



Silergate Bank Got A Flood Of Cash When Crypto Was Cool...

Total deposits at the end of each quarter

■ Noninterest bearing ■ Interest bearing



Source: Bloomberg

BloombergOpinion

Causes: Social Media and Internet Speed

TechCrunch+ Market Analysis

Venture firms are advising portfolio companies to move money out of SVB

Jitters continue after the bank's CEO asks customers for calm



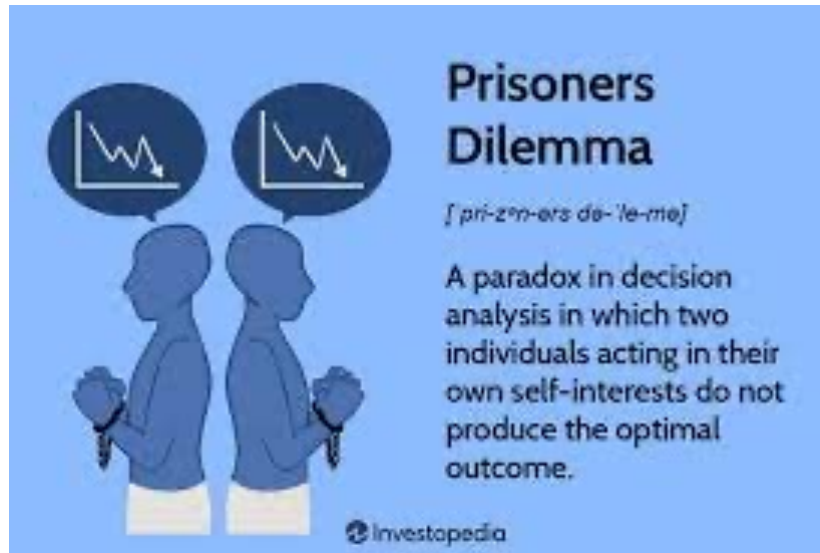
SVB collapse was driven by 'the first Twitter-fueled bank run'

By Jennifer Korn

Updated 1:25 PM EDT, Tue March 14, 2023



Bank Runs are a Form of Prisoner's Dilemma



VENTURE CAPITAL

The Prisoner's Dilemma That Drove SVB's VC Bank Run

Lon Harris - Mar 10 2023

- Once one starts it's “Devil Take the Hindmost”

Effects: Thursday/Friday 3/09-3/10 Deposit Run

- **Too Many Volatile Uninsured Deposits**
- **Too Many “Underwater” Securities**
- **Poor Understanding of Risk and Vulnerability**
- **Spooked by Moody’s Downgrade**
- **Botched Messaging on Securities Sale/Capital Raise**
- **Silvergate Bank Fails**
- **Withdrawals at Internet Speed**
- **Unprepared to Post Collateral in Timely Manner**



Equals= Worst Bank Run in US History

- \$42 Billion Withdrawn in Half a Day
- \$100 billion was Headed Out the Door the Next Day
- Compare to \$17 Billion in 8 Days at WaMu in 2008
- Unable to Secure Liquidity to Pay Off Depositors and Became Insolvent
- **Seized by FDIC at DFPI Request**

Effects: DFPI Seizure & Initial FDIC Receivership

- **Shareholders Effectively Wiped Out**
- **Insured Depositors Fully Protected, Uninsured Not**
- **DINB Receivership Initially Assumed a Liquidation Rather Than Whole Bank Sale**
 - **Expected Monday Distribution of Part (35%?) of Uninsured Deposits**
 - **Remainder to Come Later with Potential for 10-20% Loss**
 - **Sale of Assets and Liabilities as Whole or in Parts**
- **Weekend Confusion and Communication Failures at FDIC**
 - **There Hadn't Been A Failure Like This in Years—No Public Understanding of What it Meant**

Effects: Contagion Runs On All Banks with High Uninsured Deposit Balances Over Weekend

- First Republic, PacWest, Western Alliance, Zions Experienced Runs
- Signature Bank Seized by FDIC Over Weekend

on each bank's investment securities as a share of its deposits



Source: Federal Financial Institutions Examination Council • Note: Includes both “held-to-maturity” and “available-for-sale” securities, meaning both long- and short-term investments.

Effects: Fallout for California

TOP STORY

Here's what the Silicon Valley Bank collapse could mean for the Bay Area economy

CHASE DIFELICIANONIO San Francisco Chronicle Mar 12, 2023 Updated Mar 12, 2023 0

What happens to Silicon Valley without Silicon Valley Bank?

A regional bank helped the tech industry grow. Now it might need to shrink.

By Sara Morrison | sara@vox.com | Mar 16, 2023, 6:10am EDT

Silicon Valley Bank's Collapse Causes Start-Up Chaos

Young companies raced to get their money out of the bank, which was central to the start-up industry. Some said they could not make payroll.

MAP: Bay Area Affordable Housing Projects Impacted by Silicon Valley Bank's Collapse

By Sydney Johnson Mar 16 Save Article



California Relies on Tech

- Tech accounts for nearly one-fifth of the economic value produced in the state.
- The \$520 billion that it contributes represents more than a quarter of all U.S. tech output – more than the next four states combined.
- California leads the nation in tech businesses and dominates the IPO pipeline with 56% of the nation's private companies valued at more than \$1 billion.
- Silicon Valley ranks as the world's No. 1 startup ecosystem, followed by Los Angeles at No. 6 and San Diego at No. 21.

Effects:
Second
Government
Intervention
and Bridge
Bank

- **Declaration of Systemic Crisis by Treasury, Fed and FDIC**
- **All Deposits Guaranteed by FDIC at SVB and Signature Using “Systemic Risk Exception”**
- **Fed Provides Loan Facility to All Banks with Collateral at Par**
- **SVB and Signature Made “Bridge Banks” to Prepare for Marketed Sale of Entire Bank (or most)**
- **Resumed Normal Operations on Monday**
- **Holding Company at SVB Declares Bankruptcy/Other Subsidiary Value Issues**

Effects: Sale of Silicon Valley Bank Deposits and Assets to First Citizens' Bank



First Citizens Bank Announces Acquisition of Silicon Valley Bridge Bank, N.A.

March 27, 2023



Effects: Sale of Silicon Valley Bank Deposits and Assets to First Citizens' Bank

Acquired certain assets and assumed certain liabilities of Silicon Valley Bridge Bank, N.A. from the FDIC

Acquisition details

- We acquired **total assets of \$110.1 billion** with a **\$16.5 billion discount bid on assets**, consisting of:
 - **\$72.1 billion** in loans
 - **\$56.5 billion** in deposits
 - No investment securities acquired
- Option to purchase all bank branches and corporate locations.
- Retaining employees in the acquired revenue-producing businesses and those necessary to manage operations to support those businesses.
- FDIC received a value appreciation instrument from First Citizens BancShares, Inc. valued at up to \$500 million (payable in cash) and exercisable until April 14th, 2023.

Downside protections

- Transaction structured to **limit liquidity and credit risks** to First Citizens:
 - Asset discount and loss share agreement with the FDIC provides downside protection against credit risk.
 - Five-year loss share agreement stipulates that the FDIC will reimburse First Citizens for 50% of losses on commercial loans in excess of \$5 billion.
 - Entered into a liquidity facility with the FDIC to provide additional contingent funding if needed.

Integration

- All regulatory approvals received and transaction has closed.
- All branches now operating as a division of First Citizens Bank.
- All depositors will continue to have access to their funds.

Preliminary Acquired Assets & Liabilities ⁽¹⁾

(\$ in millions)

Assets	
Cash	\$ 35,264
Gross loans	72,114
Earning assets	\$ 107,378
Other assets	2,704
Total assets	\$ 110,082
Liabilities	
Deposits	\$ 56,491
Borrowings ⁽²⁾	34,605
Other liabilities	2,536
Total liabilities	\$ 93,632
Discount bid on assets	\$ 16,450



(1) Assets and liabilities as of March 24, 2023 as provided by the FDIC. Subject to change based on closing balance sheet. Asset and liability data does not include purchase accounting marks.

(2) In connection with the acquisition, First Citizens entered into a five-year \$35 billion note payable to the FDIC bearing an annual interest rate of 3.50%. Amount is estimated based on the March 24, 2023 balance sheet provided by the FDIC. Subject to change based on closing balance sheet.

Who is First Citizens' Bank?

A leading relationship bank serving customers' unique needs

Creating valuable scale, enhancing product offerings and bolstering presence in attractive markets.



Standalone

Assets	\$109 B
Loans & leases	\$71 B
Deposits	\$89 B



\$219 B – Total assets



\$143 B – Loans & leases



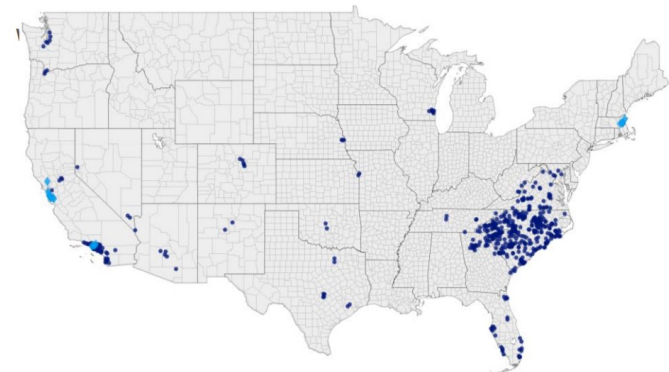
\$145 B – Deposits



Standalone

Assets	\$110 B
Loans & leases	\$72 B
Deposits	\$56 B

Expands our nationwide franchise adding scale in attractive West Coast and Northeast markets



Branches & Private Banking Offices:

- First Citizens (550)
- ◆ Silicon Valley Bridge Bank (17) ⁽¹⁾



Note – Financial information for First Citizens BancShares, Inc. is as of December 31, 2022. Financial information for Silicon Valley Bridge Bank, N.A. is as of March 24, 2023 as reported by the FDIC. All financial information is subject to change based on closing balance sheet.

(1) In connection with the transaction, First Citizens has the option, but not the obligation, to purchase or lease these branches and offices, as applicable.

Unanswered Questions on Silicon Valley Bank

What Did Management Know and When?

- Many Indications That Outside Risk Advisors had Warned About Risks and Recommended Changes
- Expected Deposit Growth and Shrinkage in Tech Cycle
- The CRO Question/The Securities Hedge Reversal/The Change in Risk Models
- 10b5-1 Insider Sales

What Did Board Know and When?

- 18 Risk Committee Meetings in 2022

What Did Regulators Know and When?

- Fed Intensified Supervision in 2022
- MRAs and MRIAs
- Role of California DFPI
- Why Did They Wait So Long? Why Was FDIC Communication so Weak?

Impact of Moody's Downgrade and Capital Raise/Securities Sale

- Unnecessary Panic or Necessary Prevention?
- Why Announce into Silvergate Bank Hurricane?

Holding Company Liability and Securities Brokerage and Venture Capital Investment Subsidiaries

Key Policy Issues on Silicon Valley Bank

How Should Management be Treated Given Risk Management Failures?

- “Clawbacks” of past compensation
- Industry Bans

Should Bank Boards be Required to Have Expert Members?

- SIVB Risk Committee included a Napa vineyard owner, a retired healthcare CIO, a former U.S. Treasury undersecretary, venture capital partners and consulting firm heads, but no financial services risk experts
- California Could Change this for DFPI-Regulated State Banks

Did Regulators Have the Right Powers or Could They Have Used Existing Powers More Effectively?

- Is New Legislation Required?

Does the Definition of a Systemic Bank Need to be Revisited?

- Size, Deposit Profile, Growth Trajectory
- Regional or Sectoral Importance to Economy

Should Liquidity and Other Standards Applied to Biggest Banks be Applied to Smaller but Still Large Banks?



FIRST REPUBLIC BANK
It's a privilege to serve you®

First Republic Bank Impact





FIRST REPUBLIC BANK

It's a privilege to serve you®

First Republic Bank Impact

- **“Like a Bystander Caught in a Drive-By Shooting”**
- **Business Mix Similar to Silicon Valley Bank’s Boston Private Bank Business**
 - Personal Service Orientation
 - Focused on High Earners with Assets but not Super-Rich
- **Deposits Two-Thirds Uninsured**
 - Far Smaller % than Silicon Valley, Silvergate or Signature
- **Balance Sheet Grew Rapidly in Zero Rate Environment Supported by Low-Cost Deposits**
- **Low-Risk Mortgage, Apartment and Commercial Real Estate Loans but Mostly at Low Fixed Rates with Long Duration**
- **Earnings Therefore Sensitive to Interest Rate Changes**
- **Panic Deposit Run Withdrawals Required Massive Liquidity Support from Fed, FHLB and 11 Large Banks**
- **Stable Now But Strategically Challenged**
- **Regulated by DFPI and FDIC (not Fed)**



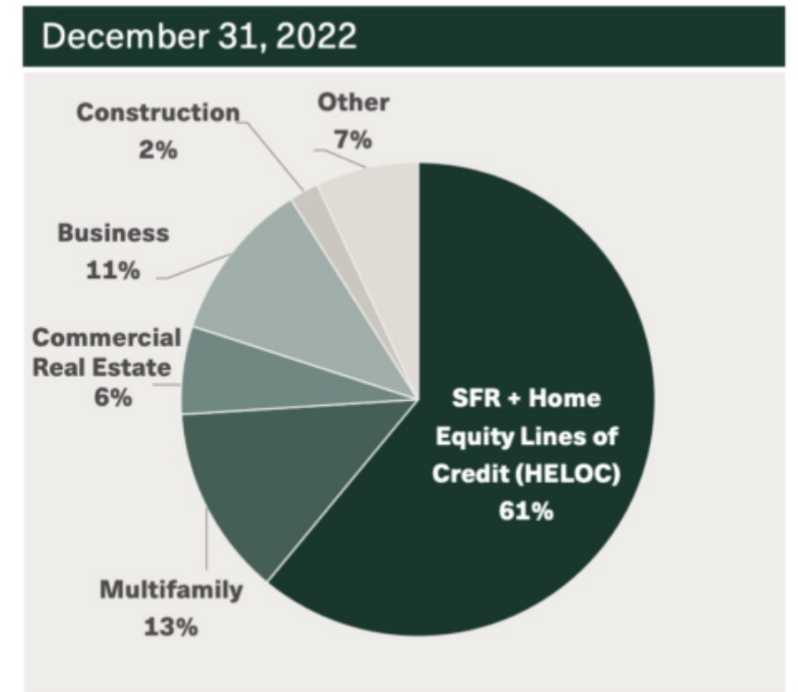
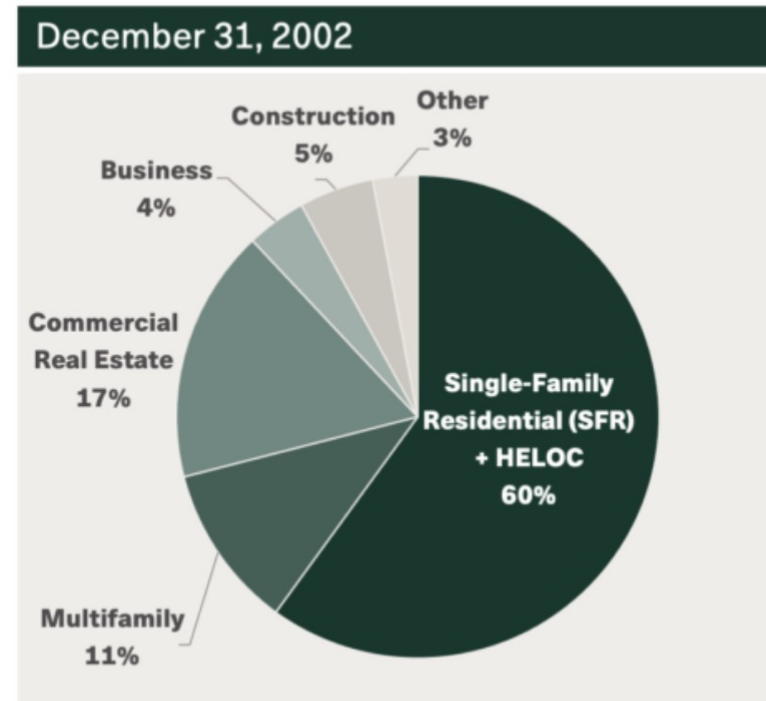
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First Republic Bank Loans

2002–2022: Stability – Loan Type



Very consistent loan mix, with over 80% of loans collateralized by real estate ⁽¹⁾



SFR + HELOC = 60%

Virtually no change
in 20 years

SFR + HELOC = 61%



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First Republic Bank Credit Quality

Exceptional Credit Quality



Only 8 bps of cumulative losses on all loans originated since founding in 1985 ⁽¹⁾

(\$ in millions)	Years of Origination	Cumulative Net Losses ⁽²⁾		Total Originations
Residential real estate ⁽³⁾	1985-4Q22	\$81	0.03%	\$240,720
Multifamily/commercial construction ⁽⁴⁾	1990-4Q22	38	0.23%	16,476
Commercial real estate	1989-4Q22	58	0.26%	22,457
Multifamily	1989-4Q22	62	0.16%	39,343
Business ^{(1), (5)}	2000-4Q22	91	0.09%	95,851
Unsecured	2000-4Q22	14	0.11%	12,593
Stock and other secured	2000-4Q22	3	0.01%	27,282
Cumulative	1985-4Q22	\$347	0.08%	\$454,722

8 bps of cumulative losses in 37 years ↗

\$455 billion of originations in 37 years ↗

The median attributes of clients who have obtained home loans from us over the last two years are as follows:

	<u>Median</u>
Loan Size	\$900,000
LTV	60%
Liquidity	\$685,000
Credit Score	780



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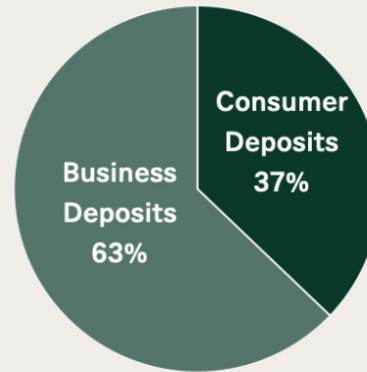
First Republic Bank Deposits Pre-Run

Diversified Deposits

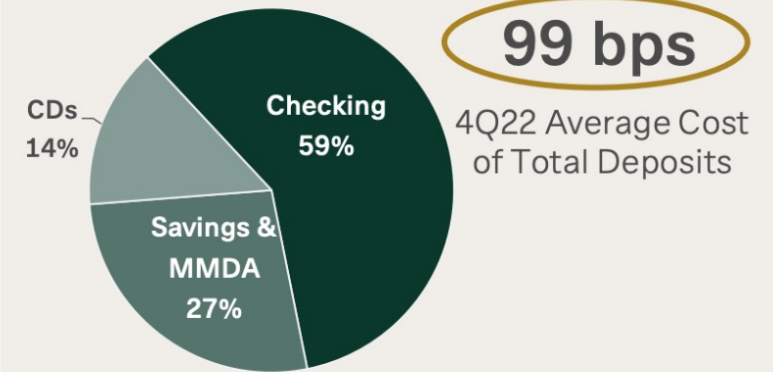


Reflects long-term and deep relationships

By Source 12/31/22



By Type 12/31/22



Scalable Operational Size

First Republic has only approximately **1/5th** the number of deposit accounts compared to the average \$100–250 billion U.S. bank: ^{(1), (2)}

- Greater ability to provide extraordinary service per relationship
- Greater ability for oversight per relationship



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First Republic Bank Deposit Growth

Organic Growth: Deposits



Total Deposits (\$ in Billions)





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First Republic Bank Simple Model

Appendix: Business Activities Not Undertaken



This list includes the activities in which we do not currently intend to engage. As the Bank evolves, we will maintain and reevaluate this list periodically to ensure it continues to reflect our strategy and capabilities.

- No proprietary trading
- No market making in equities
- No trading assets or liabilities
- No cross-currency swaps
- No clearing services
- No banking or custody services to digital asset exchanges or service providers and no direct Bank investments in digital assets
- No underwriting transactions in debt and equity markets
- Not a commercial paper issuer, backstop provider or guarantor
- No underwriting of IPOs
- No exotic derivatives
- No junk bond investments ⁽¹⁾
- No foreign sovereign debt investments
- No wholesale lending or borrowing of securities to or from financial institutions
- No depository institution, foreign bank or credit union debt positions
- No loans to foreign governments
- No credit card issuance or auto loan originations
- No low-doc or no-doc subprime lending
- No negative amortization loans (minimal amount in runoff)
- No reverse mortgages
- No foreign offices
- No open market common stock buybacks
- No factoring
- No sale of loan servicing on originated loans ⁽²⁾
- No commercial letters of credit (i.e., trade finance)
- No conduit securities lending transactions
- No domestic or foreign holding company and no holding company subsidiaries

First Republic Bank does not directly lend to businesses operating in the following environmentally sensitive industries:

- Fossil fuel extraction
- Fossil fuel pipelines
- Natural gas distribution
- Fossil fuel electric power generation
- Nuclear electric power generation
- Hydroelectric power generation
- Forestry
- Mining and quarrying
- Commercial fishing



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First Republic
Bank
California
Focus More
Than 55%



SF + NYC + LA + BOS = 83%

Virtually no change
in 20 years

SF + NYC + LA + BOS = 82%



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First Republic Bank Today— Fitch Ratings

- **“Presently, Fitch estimates that, due to the higher cost of funds, FRB is currently operating at a net loss that is not sustainable over the longer term absent a balance sheet restructuring.**
- **Furthermore, to the extent that FRB is required to repay the \$30 billion at the end of its term, it will have to raise liquidity by selling assets.**
- **This is complicated by the fact that, similar to other U.S. banks, the fair market value of securities and loans are below their book value and a sale of assets would likely require a significant recapitalization.**
 - FRB's balance sheet is concentrated in relatively long duration municipal securities as well as residential mortgage loans. As of 4Q22, FRB's securities and loans carried unrealized losses totaling 16.3% and 13.3%, respectively, relative to amortized cost.”