GLOBAL BANKING CRISIS 2.0

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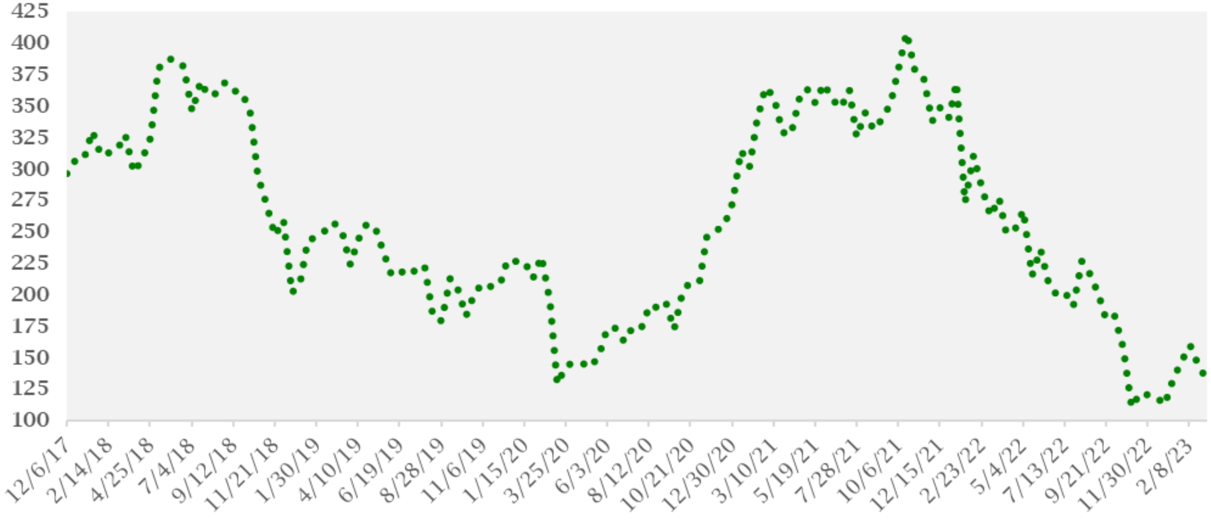
SIVB: Price-to-Tangible Book Ratio: DEC-6-2017 to MAR-8-2023



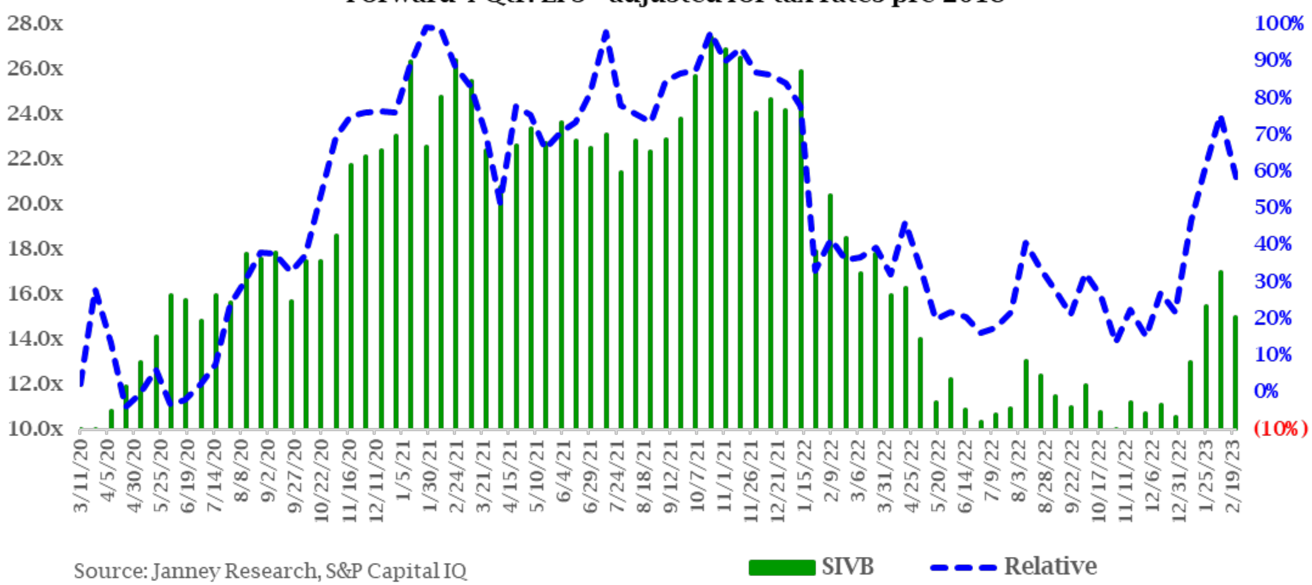
Source: Janney Research, S&P Capital IQ pricing at 14-day intervals

Silicon Valley Bank (SIVB) had a high valuation for many years.

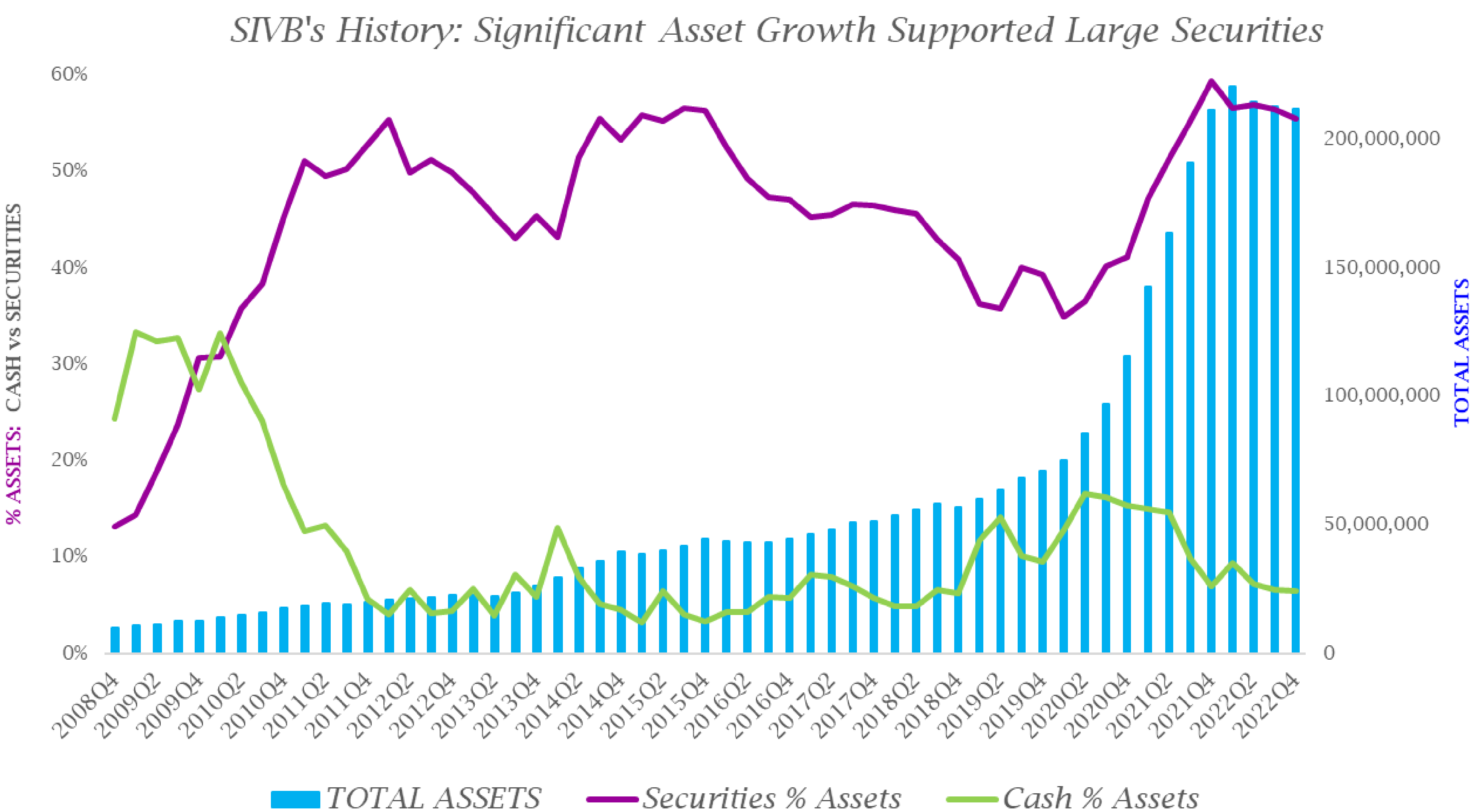
It slipped in 2022 and still was 60% better than the average regional bank.

SIVB: P/E vs Regional Banks Since Early 2020

Forward 4-Qtr. EPS - adjusted for tax rates pre-2018

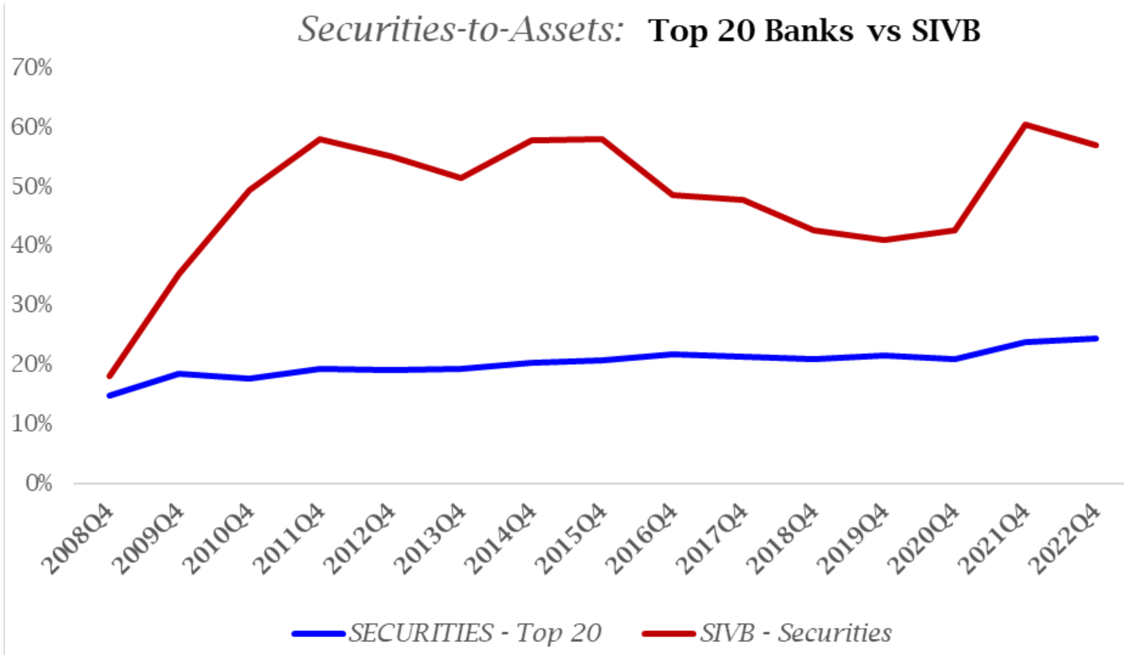


Source: Janney Research, S&P Capital IQ

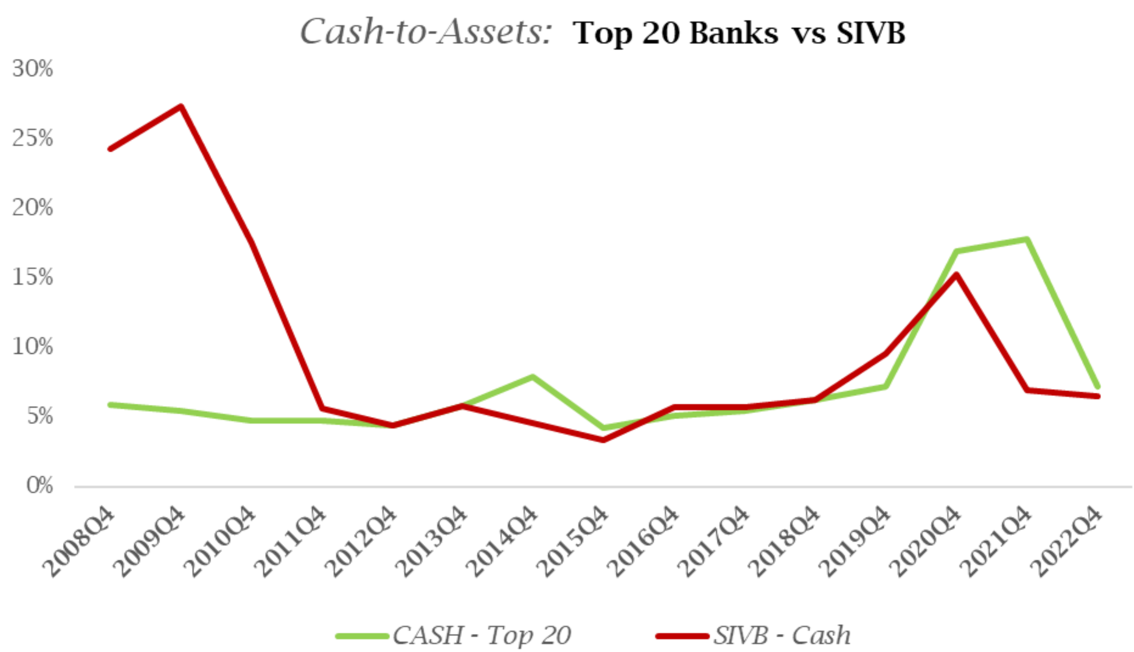


Source: Janney Research, S&P Capital IQ data thru 4Q-2022

A large Securities book was nothing new at SIVB. The balance sheet supported this position for many years, the position expanded exponentially in 2020 and 2021



SIVB's Securities were materially higher vs large regional/national Banks



Source (both charts): Janney Research, S&P Capital IQ data thru 4Q-2022

What Is Missing Today On Banks' Disclosures — *Why These Requests Are Critical Today*

Our Seven(7) Point Check List
(immediate implementation recommended)

NEW DATA INVESTORS REQUIRE FROM BANKS (starting now or by April-23 earnings releases)

- **Deposit Details:** *Robust explanations of customers by size, true uninsured Deposits (beyond FDIC call report line-item)*
- **Customer Concentrations:** *Apply prior concept of "Loans-to-One Borrower" to a "Deposits-to-One-Customer" practice*
- **Liquidity Immediately Available vs Contingent Liquidity Sources:** *Include Cash and Immediate Funds and then explain other sources of funding* **(rate details are important here, investors need to see price and availability of liquidity)**
- **Pricing — Deposit Rates Matter More Than Deposit Type/Label:** *CDs are no longer bad in a world where DDAs may be huge customers who flee upon uncertainty* **(especially when news spreads on social media)**
- **Loans By Collateral & CRE Segment:** *Office, Industrial, Retail, Hotel, Multifamily, and major industries must be clear* **(investors who want to worry about Office should have details easy to assess)**
- **Unrealized Losses On Securities & Other Mark-to-Market Data:** *HTM Losses count the same as AFS even if AOCI excludes* **(investors feel burned by "Hide-to-Maturity" errors in 2022/2023 disclosures that led to the Spring '23 Bank Crisis)**
- **Credit Quality & Criticized Asset Basics:** *10-Q details are improved, data can hit sooner in earnings 8-Ks & FDIC call reports* **(leadership is important by Banks' EPS releases and FDIC call report Schedule)**

Source: Janney Research (FIG Group)

Read more in Janney Research's Weekly Musings March-20-2023

New Capital & Valuation Metrics

Investors are not waiting for regulatory/accounting rules to change, a new path is being formed

- ✓ *All Securities losses (unrealized) are netted against capital*
- ✓ *Consider Adjusted Capital (both TBV per share, TCE & Tier 1 ratios)*
- ✓ *What is the new capital needed to cover unrealized losses HTM & AFS*
- ✓ *Value stocks on adjusted P-to-TBV and adjusted P/E*
- ✓ *Deposits re-examined for pricing vs Fed Funds in new 3/31 disclosures*

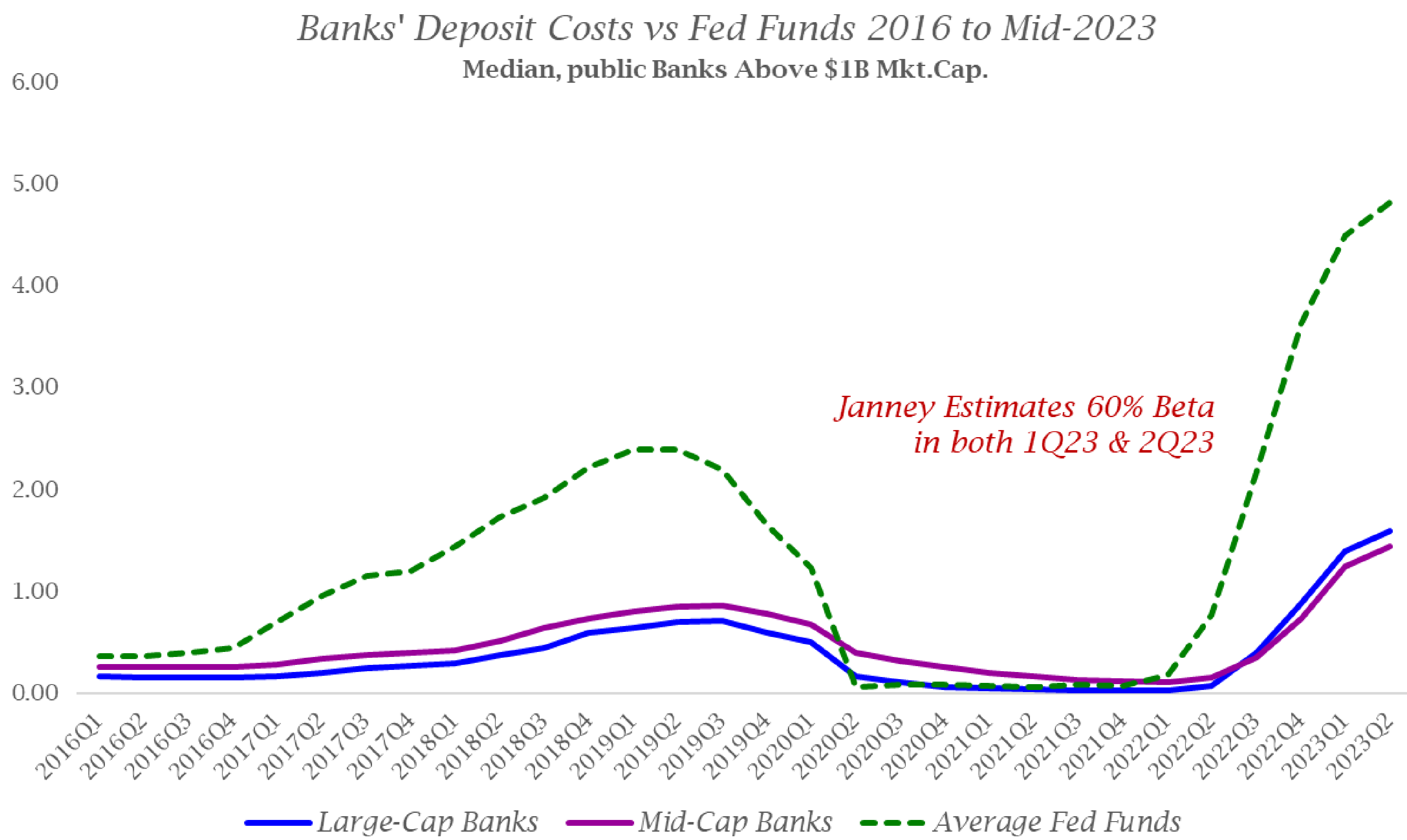
	ADJ P-to-TBV	P-to-TBV	TCE	ADJ TCE	CET-1	Tier 1	Extreme Tier 1
LARGE	202%	159%	5.61	4.95	10.41	8.53	5.83
MID	158%	148%	7.73	7.29	11.61	9.77	7.82
SMALL	121%	118%	7.74	7.51	11.74	9.89	8.28
ALL PUBLIC (420+)	**131%**	**124%**	**7.64**	**7.35**	**11.46**	**9.81**	**7.96**

MEDIAN DATA

Source: Janney Research, S&P Capital IQ, FDIC call report filings 12-31-2022

Rising Deposit Costs: Big Betas Ahead

Banks lagged Fed Funds rates in past cycles … Expect 60s Beta (or more) in 1Q23 and 2Q23



Deposits Already On The Decline…

FDIC charters nationwide (w/ foreign banks) plus Fed H8 survey data today vs December 2019

$Dollar Change Q/Q: **Late 2019 to March 2023**

	Total Deposits	Large Time Dep	Other Deposits	Borrowings
4Q-2019	316.4	36.6	279.8	(34.8)
1Q-2020	1,059.9	(54.8)	1,114.6	331.8
2Q-2020	1,182.6	(73.0)	1,255.5	(463.1)
3Q-2020	69.3	(149.2)	218.5	(121.1)
4Q-2020	621.1	(78.1)	699.2	(25.7)
1Q-2021	601.5	(15.2)	616.7	(37.5)
2Q-2021	193.7	(35.2)	229.0	(116.3)
3Q-2021	423.1	(27.0)	450.1	146.7
4Q-2021	634.3	(14.2)	648.5	(6.2)
1Q-2022	130.9	53.7	77.1	(56.5)
2Q-2022	(262.0)	34.2	(296.2)	62.0
3Q-2022	(185.9)	83.5	(269.4)	103.6
4Q-2022	121.3	120.3	1.0	140.7
1Q-2023	(325.4)	174.5	(499.9)	126.3

% Mix: **Late 2019 to March 2023**

	Total Deposits	Large Time Dep	Other Deposits	Borrowings (% Total Funding)
4Q-2019	100.0%	13.7%	86.3%	12.5%
1Q-2020	100.0%	12.3%	87.7%	13.5%
2Q-2020	100.0%	10.9%	89.1%	10.2%
3Q-2020	100.0%	9.9%	90.1%	9.6%
4Q-2020	100.0%	9.0%	91.0%	9.1%
1Q-2021	100.0%	8.6%	91.4%	8.6%
2Q-2021	100.0%	8.3%	91.7%	8.0%
3Q-2021	100.0%	7.9%	92.1%	8.5%
4Q-2021	100.0%	7.6%	92.4%	8.2%
1Q-2022	100.0%	7.8%	92.2%	7.9%
2Q-2022	100.0%	8.1%	91.9%	8.3%
3Q-2022	100.0%	8.7%	91.3%	8.8%
4Q-2022	100.0%	9.3%	90.7%	9.4%
1Q-2023	100.0%	10.5%	89.5%	10.2%

Source: Janney Research (FIG Group), Federal Reserve weekly H.8 data, quarter-to-quarter growth rates

We interpret this as a NORMALIZATION of Deposits and Mix post-pandemic.
More Core Deposits (less CDs) & **higher Core Funding** *(less Borrowings).*

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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.
NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

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Janney Montgomery Scott Ratings Distribution as of 12-31-2022

			IB Serv./Past 12 Mos.*	
Rating	Count	Percent	Count	Percent
BUY [B]	126	53.85	26	20.63
NEUTRAL [N]	99	42.31	10	10.10
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	9	3.85	2	22.22

Latest on SVB, Signature & Others

- Flagstar Bank / New Yok Community Bank assumed all but $4BB in deposits of Signature Bank
- Only purchased $12.9 billion in loans at 79%; FDIC retaining $60 billion
- Final bids on Silicon Valley Bank are due today at 8:00 PM EDT (Silicon Valley Private Bank) and Friday at 8:00 PM EDT for Silicon Valley Bridge Bank, N.A.
- The last time the FDIC could not find a buyer to assume the deposits was September 2013 for the Community's Bank, a $25 million bank in Bridgeport, CT. In short, uninsured depositors rarely lose money, even if the bank fails.
- Credit Suisse acquired by UBS in a $3.2 billion deal, wiping out $17 billion in bondholders
- After 11 banks first injected $30 billion in deposits into First Republic, Jamie Dimon is leading discussions to convert some or all of these deposits into capital.

Uninsured Deposits by Bank:

1. BNY Mellon: 97%
2. SVB: 94%
3. State Street: 91%
4. Signature: 90%
5. Northern Trust: 83%
6. Citigroup: 77%
7. HSBC Holdings: 73%
8. First Republic Bank: 68%
9. East West Bancorp: 66%
10. Comerica: 63%

We've Got to Keep our Composure!

- Banking Agencies issued a release Sunday, March 14: "All obligations of the bridge are backed by the FDIC and the Deposit Insurance Fund."
- Fed providing "*additional funding will be made available through the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress."*
- "US officials are studying ways they might temporarily expand Federal Deposit Insurance Corp. coverage to all deposits, a move sought by a coalition of banks arguing that it's needed to head off a potential financial crisis. Treasury Department staff are reviewing whether federal regulators have enough emergency authority to temporarily insure deposits greater than the current $250,000 cap on most accounts without formal consent from a deeply divided Congress, according to people with knowledge of the talks." – Bloomberg 3/22/23

Asset Quality in Banks

	Q4 2022	Q1 2006	Q4 2014	Q1 2010	Q1 2020
Loans and leases, 30-89 days past due	67,938	56,334	69,968	141,492	72,342
Noncurrent loans and leases	89,772	48,593	162,686	405,395	102,382
Restructured loans and leases	44,047	3,306	84,019	64612	46,835
Other real estate owned	2,596	5,117	21,979	46265	5,588
Total Problem Assets	204,353	113,350	338,652	657,764	227,147
NPAs as a % of Assets	0.39%	0.48%	1.20%	3.83%	0.54%

- Good news is banks are at record low levels of NPAs
- Bad news is they can only go up from here
- Cracks emerging in subprime auto loans
- According to Trepp, CMBS Special Servicing Rate (5.18%) continues to rise; 44% of all new special servicing loans backed by office properties
- Our clients are predominantly worried about office, senior housing, small business loans, and small balance CRE loans