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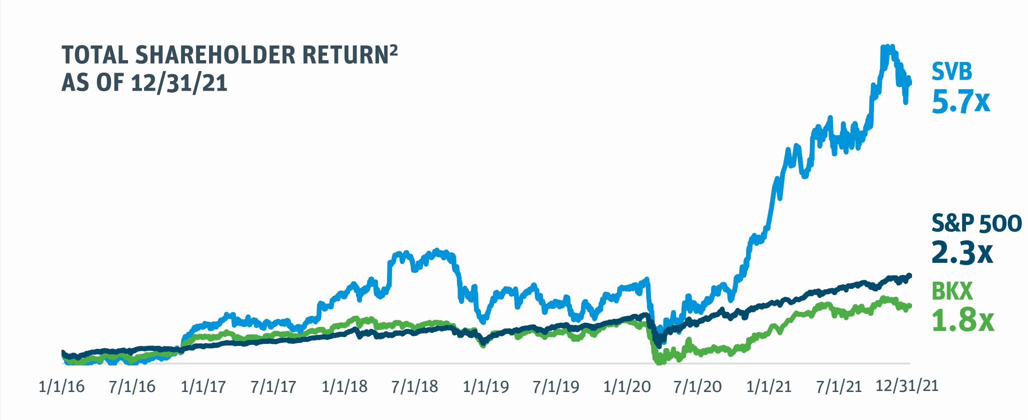
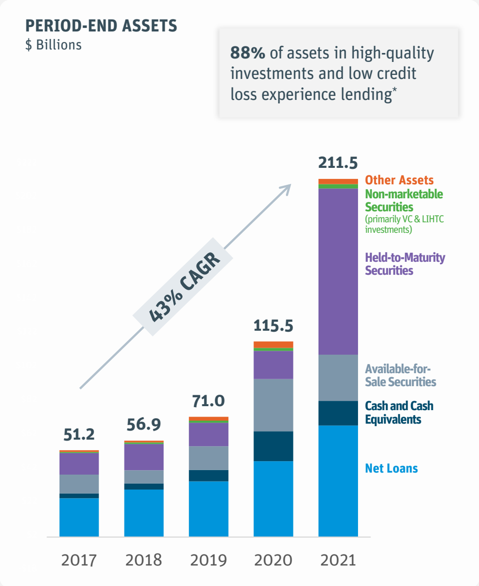
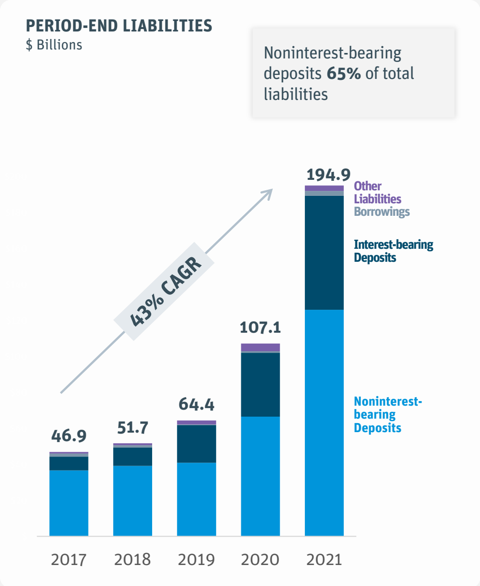
svb Post Mortem – 28/03/23

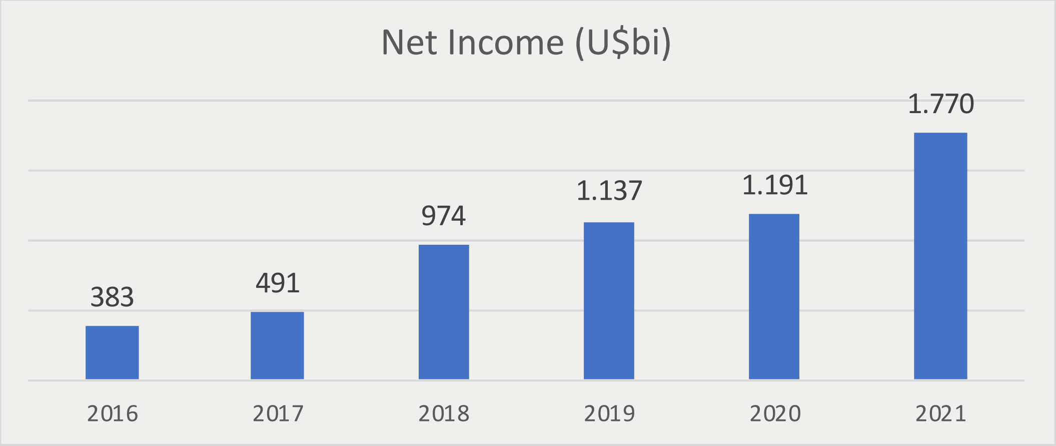
SVB – Post Mortem

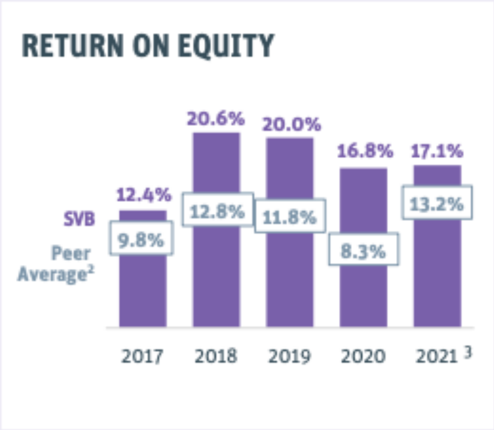
- Fundado em 1987.
- Foi de queridinho do mercado a bancarrota em 15 meses.











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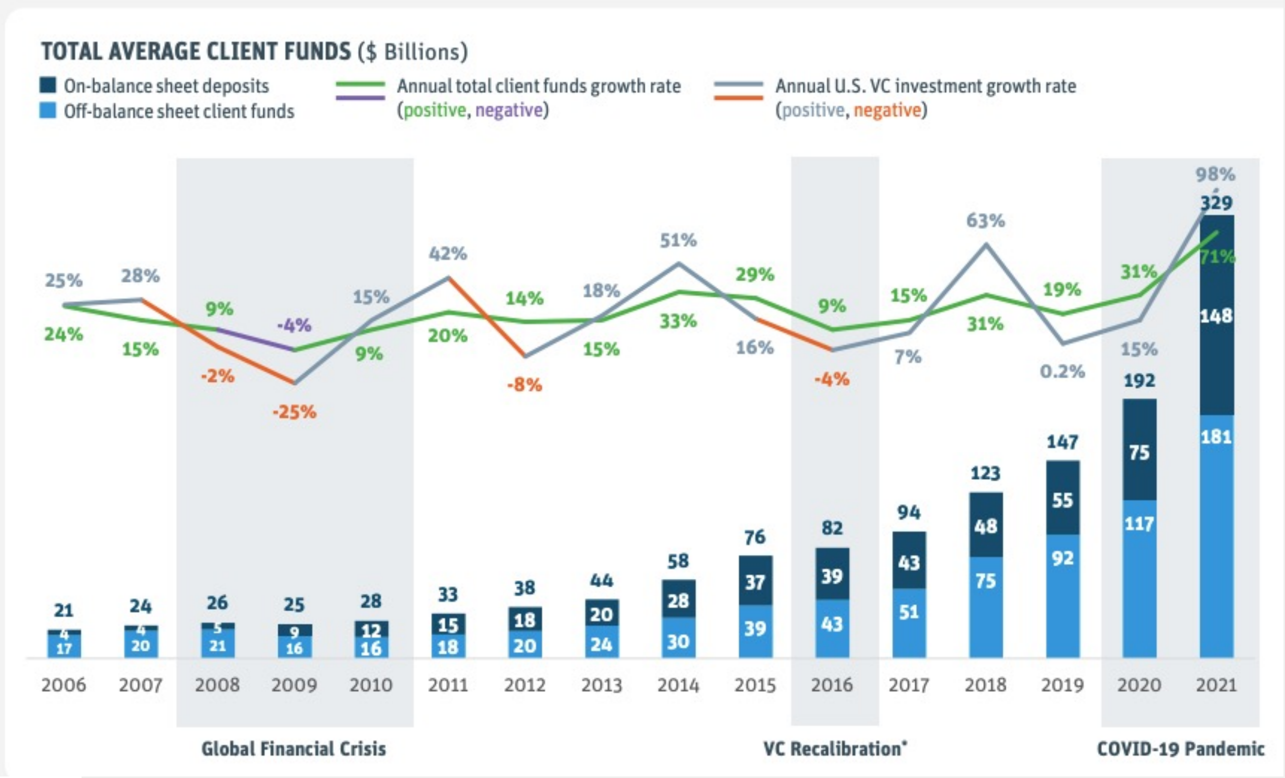
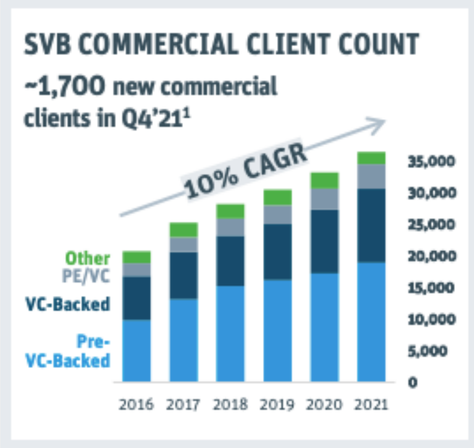
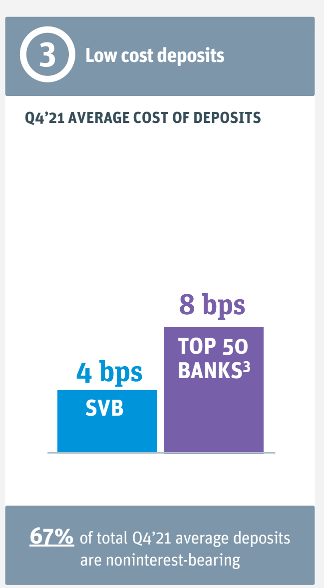
Como Faziam Dinheiro

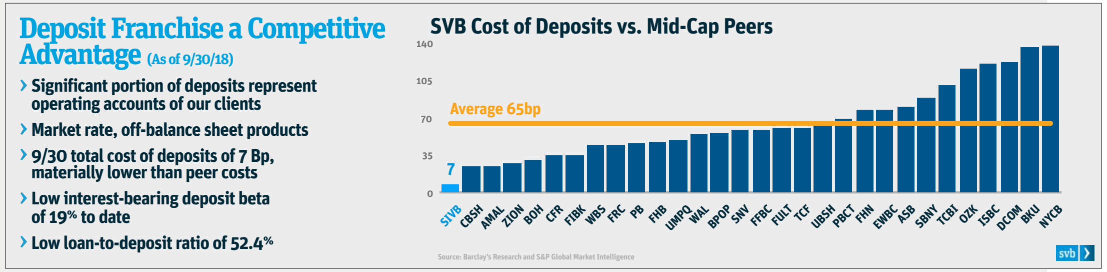
- Banco de atacado com acesso a uma base de clientes muito bem capitalizada e com acesso a capital. Ao longo dos anos os depósitos pareciam muito estáveis e o banco passou a ganhar dinheiro na composição de empréstimos com baixo risco (muitas vezes antecipação a rodadas futuras); títulos públicos longos com algum yield; warrants que iam dando retorno com IPOs e um custo de depósito muito baixo (2/3 eram não remunerados).
- O baixo número de clientes e elevado ratio de uninsured deposits não era questionado.





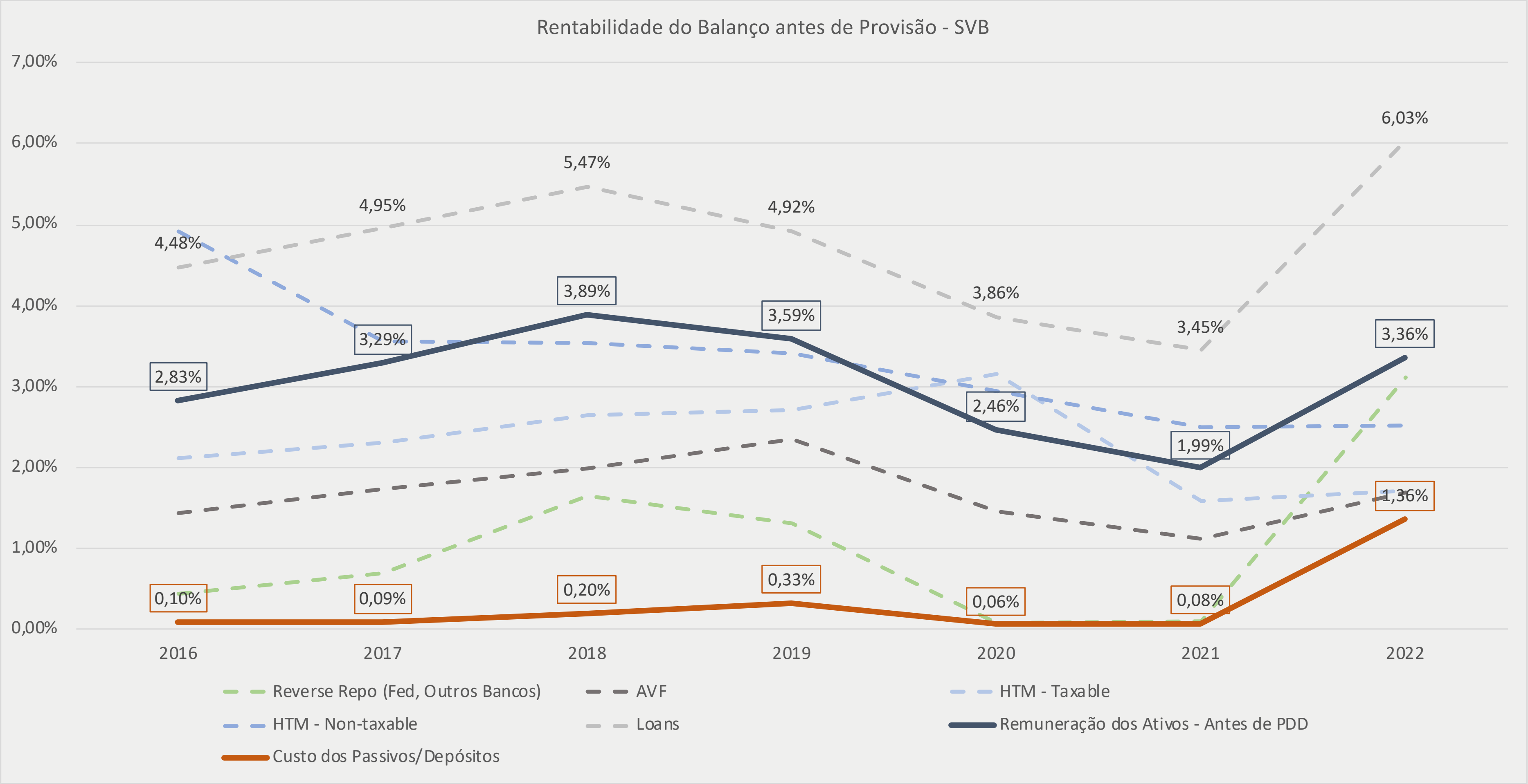


2018



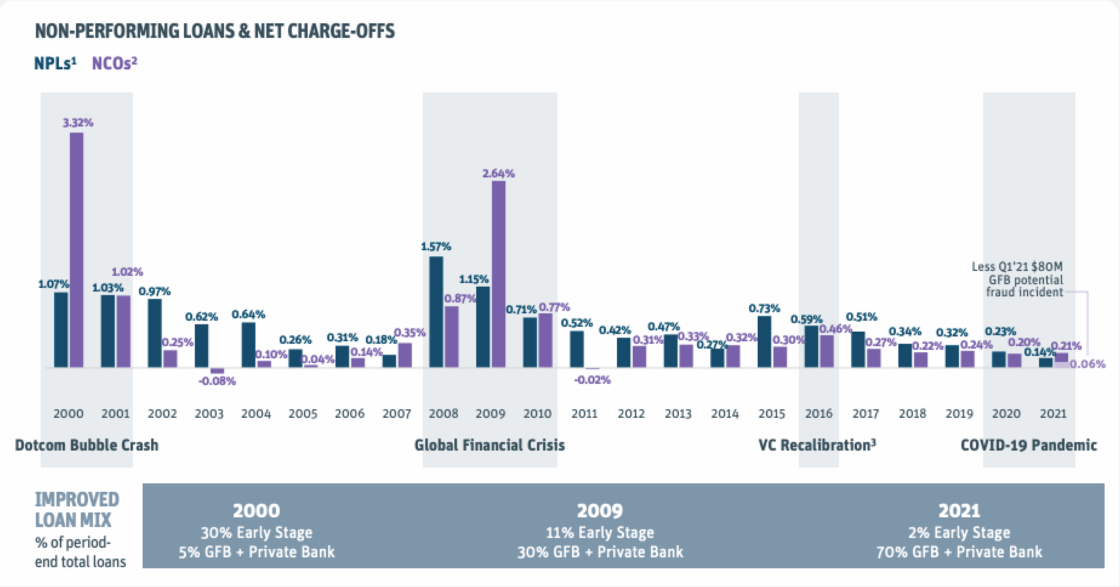
Como Faziam Dinheiro

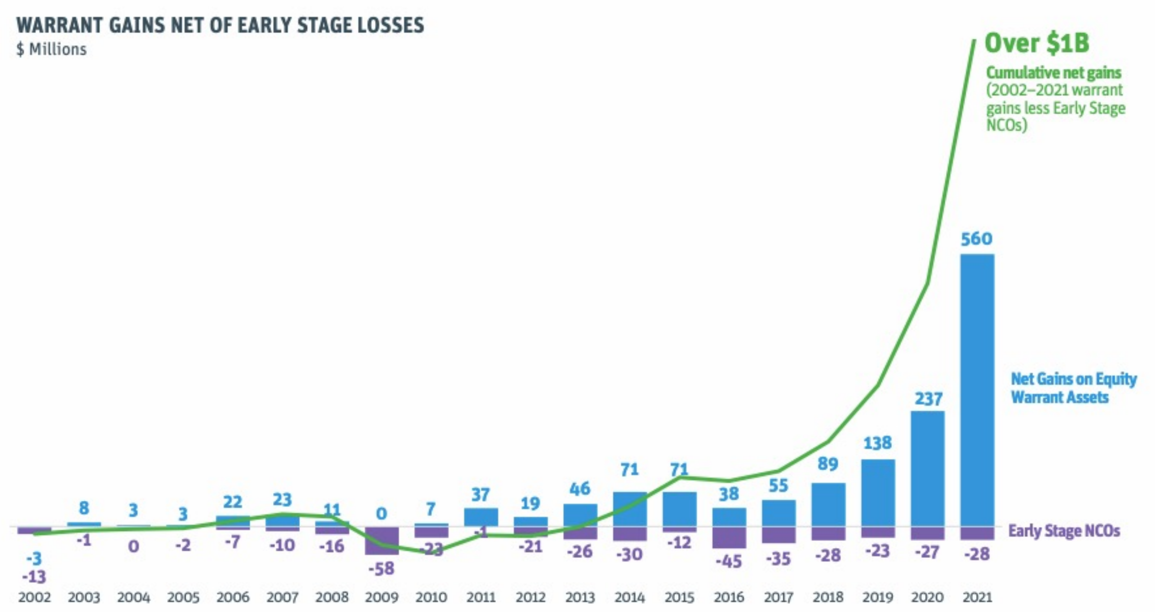
- Portfólio de crédito com baixa inadimplência e funding barato e crescente.

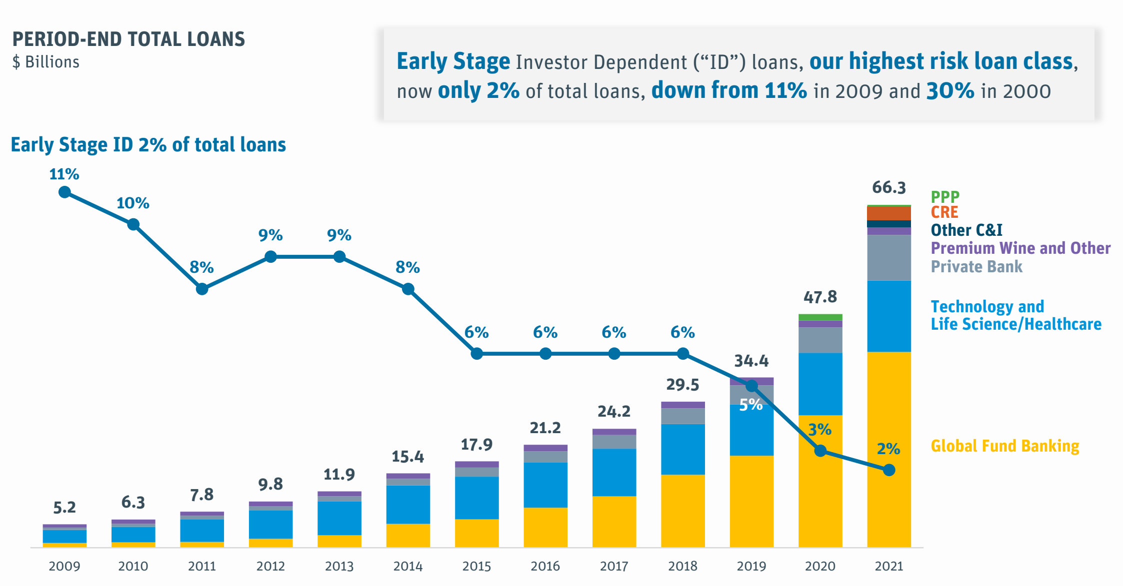


Como Faziam Dinheiro - Crédito

- Crédito era simples.
- Global Fund Banking, mais da metade da carteira, era basicamente antecipação de rodadas com VCs/PEs para as start-ups.
- Private banking (~15%) era basicamente mortgage com baixo LTV para os founders/executivos das empresas.
- Como parte do crédito, recebiam também Warrants, que no bull market parecia "genial".
- Acompanhavam de perto o dry-powder da indústria de VC.

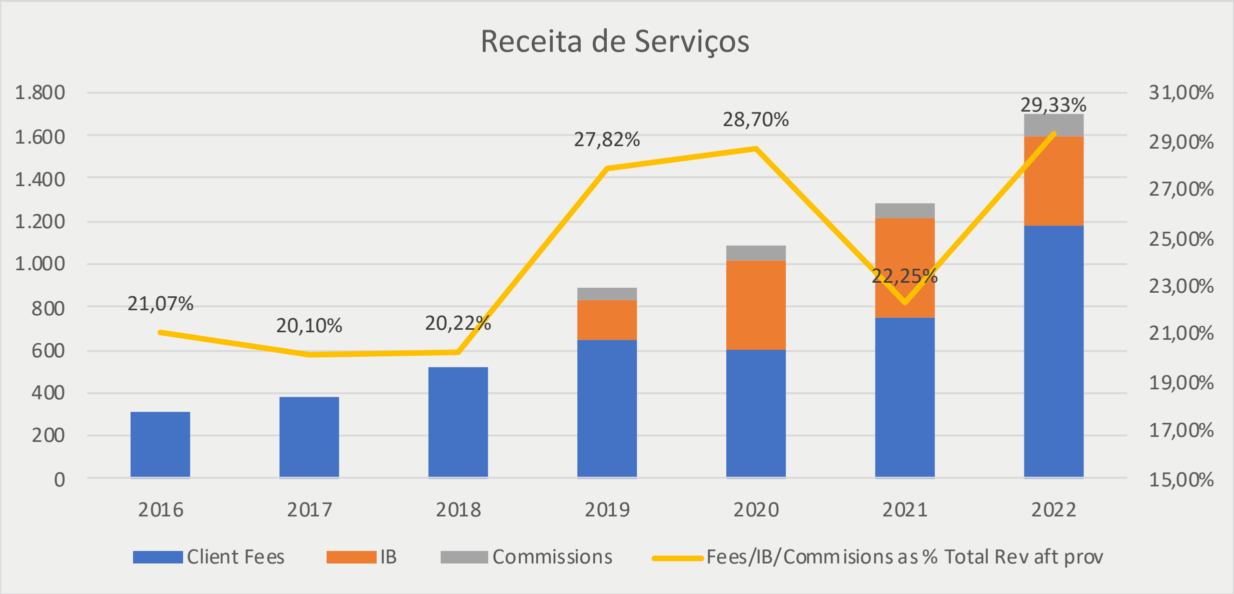






Como Faziam Dinheiro - Serviços

- Estava seguindo o caminho certo. Entrou em Wealth Management, começando a diversificar sua base de clientes para varejo, e depois em IB em 2019, aumentando sua fonte de receita via serviços.
- Compraram um investment banking no fim de 2018 (Leerink).
- Client fees inclui: investment fees, deposit service charges, credit card fees, foreign exchange fees e outros.



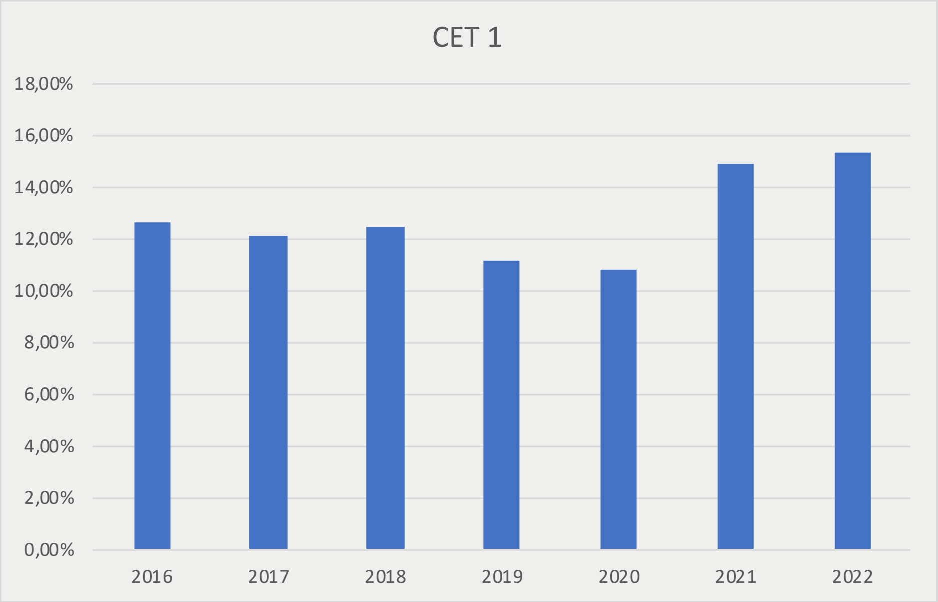
* 2021 o resultado de juros dos títulos foi muito forte e jogou o % de serviços para baixo do mix.

Full suite of financial services

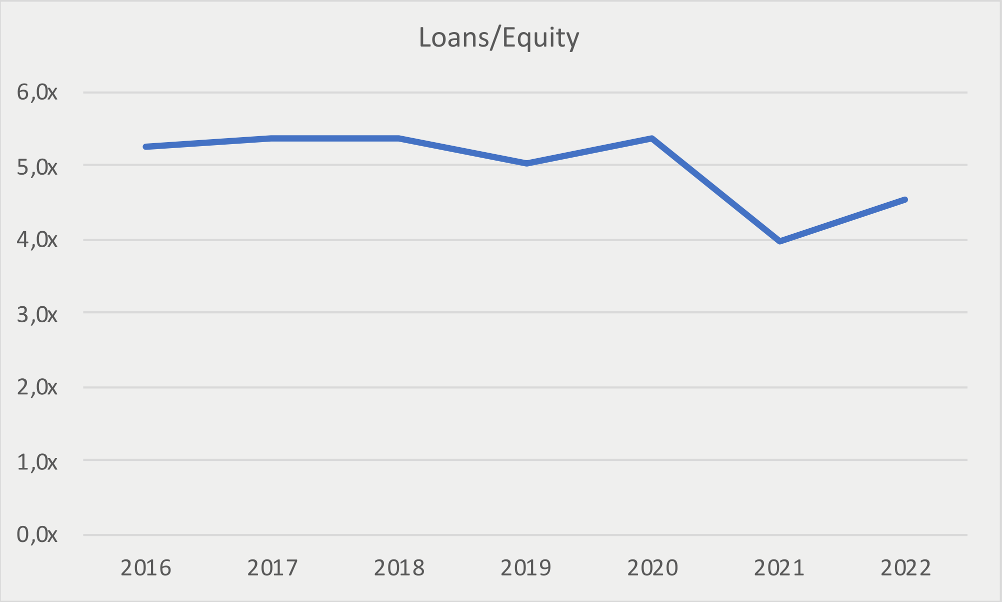
	svb Financial Group	LEERINK
Global Commercial Bank	⊙	
Treasury Management: FX, Cards, Payments	⊙	
Asset/Fund Management	⊙	⊙
Private Bank	⊙	
Wealth Management	⊙	
Equity Capital Markets		⊙
Convertible Capital Markets		⊙
M&A Advisory		⊙
Sales and Trading		⊙
Equity Research		⊙

Capital Nunca foi o Problema

- Carteira de crédito nunca foi grande, e as securities em ativos government backed (>90% do total): us treasury, agency CMS, municipal bonds/notes...



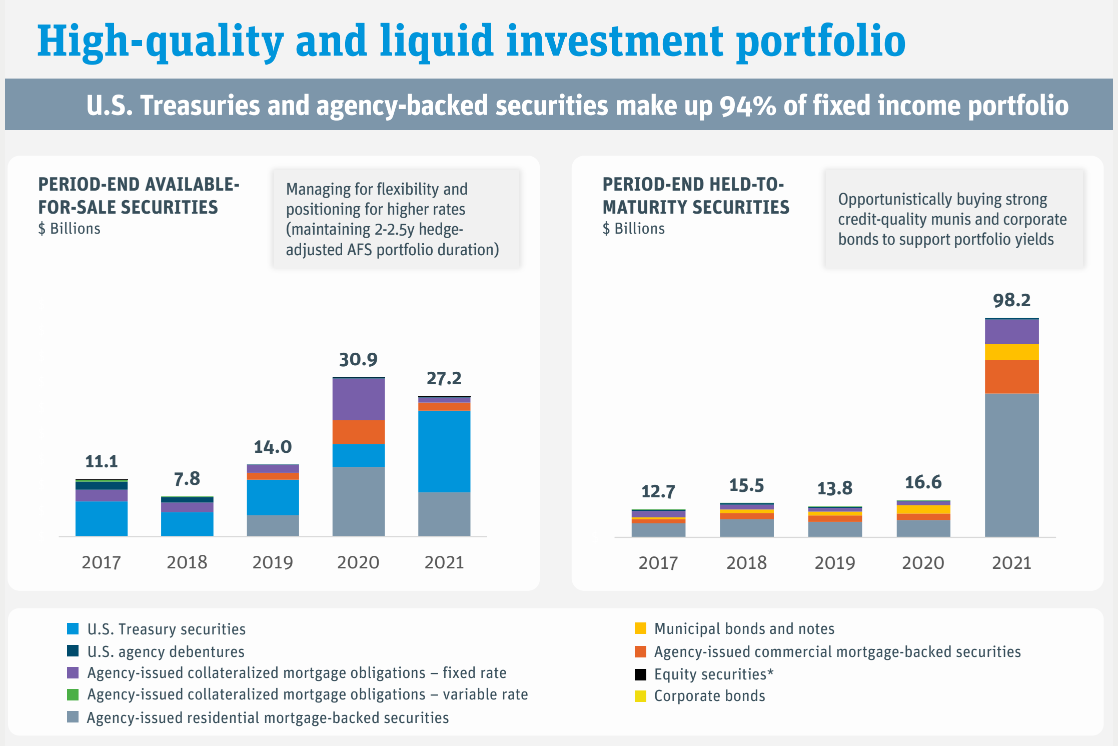
Minimo regulatório é 8,5% de CET1



Small Banks rodam em média entre 7 e 10x Loans/Equity

Excesso de Confiança

- O Excesso de Confiança levou a um erro fatal.
- Com o aumento de juros investiu toda a liquidez que recebeu do aumento significativo de depósitos ao longo de 2020 e 2021.
- Confiaram nos modelos para entender a sensibilidade do deposit outflow ao aumento de juros, e assim estavam confiantes que tinham bastante liquidez e podiam continuar travando o retorno do ativo a taxas mais altas que a remuneração dos depósitos.



A - Marc Cadieux {BIO 18031485 <GO>}
And do you expect any difference in deposit behavior, Dan. The cycle was what we saw in '16-'17 just given the fed might be hiking at a much faster pace, you have larger customers. Do either of those dynamics change how deposit betas, the mix shift could behave this cycle versus last?

A - Daniel Beck {BIO 19294686 <GO>} CFO
Yeah, Ebrahim, we're watching that and modeling sensitivities to that. All-in in our rate sensitivity. We've got a 60% deposit data and that's on the interest bearing balances that we have in the portfolio, which is consistent with the last cycle. And we've effectively for conservatism model a faster beta in some of these net interest income assumptions meaning that they would take place sooner in the rate cycle than we experienced during the last hike. So we feel like we've got some measure of conservatism in there just to take into consideration. The fact the fed could move faster and client behavior could be different this time. That's how we're getting comfortable with that all-in $100 million to $130 million annualized pre-tax net interest income number.

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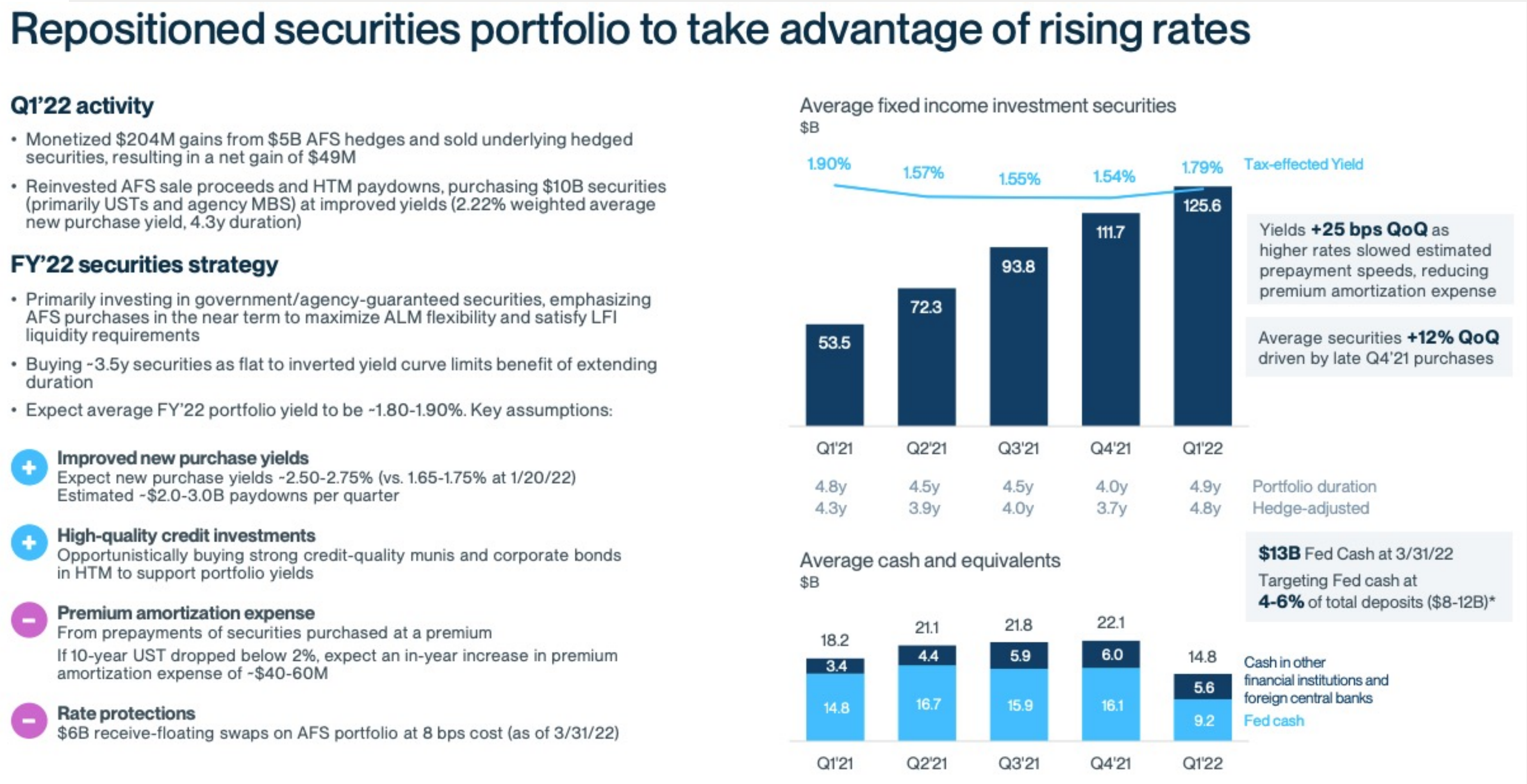
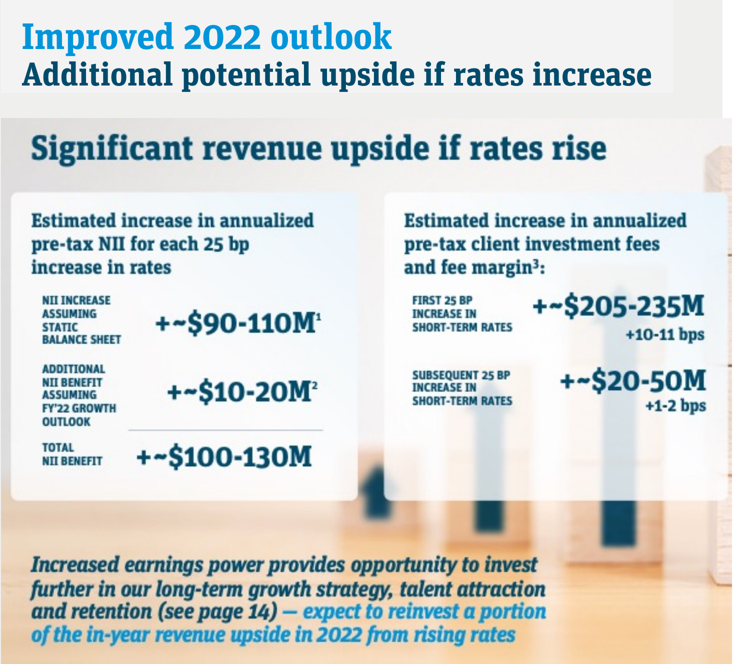
Alocação em Títulos

- Viram o aumento do juros como oportunidade de aumentar o ROA ao investir os depósitos a taxas superiores! Entraram 2022 animados.





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Alocação em Títulos

- E falavam que iam continar comprando HTM securities com o excesso de liquidez!

Significant securities purchases as deposit inflows continued

Q4’21 activity

- Purchased $27.2B securities (1.49% weighted average yield, 4.4y duration) vs. roll-offs of $5.3B at 1.54%
- HTM purchases included agency-issued MBS/CMOs/CMBS, high-quality munis and a small amount of corporate bonds; AFS purchases primarily included USTs
- Sold $1.4B of agency issued MBS from AFS to manage interest rate risk, realizing $32M pre-tax gains
- Outsized deposit growth continued to drive elevated average Fed cash balances, despite significant securities purchases; period-end Fed cash declined to $6B following anticipated PE/VC year-end distributions

FY’22 balance sheet positioning

- Focused on maintaining 2-2.5y hedge-adjusted AFS portfolio duration to mitigate OCI risk while buying 3-5y duration HTM securities to support portfolio yields
- Investing excess on-balance sheet liquidity in high-quality securities (agency MBS/CMOs/CMBS, munis and corporates), primarily classified as HTM
- Targeting average Fed cash balances at $8-10B target*
- Expect average FY’22 portfolio yield to be ~1.50-1.60%. Key assumptions:

\+ **Improved new purchase yields**
Expect new purchase yields ~1.65-1.75%
Estimated ~$3.0-4.0B paydowns per quarter

\+ **High-quality alternative investments**
Opportunistically buying strong credit-quality munis and corporate bonds to support portfolio yields

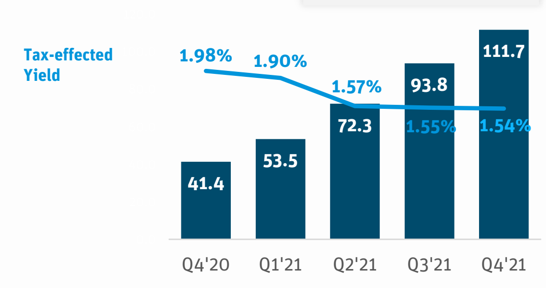
– **Premium amortization expense**
From prepayments of securities purchased at a premium
Expect +/- $20-30M change in premium amortization expense for each +/-10 bp change in 10y yields

– **Rate protections**
$10.7B receive floating swaps on AFS portfolio at 38 bps cost (as of 12/31/21)

Note: Rising rates would benefit portfolio yields.

AVERAGE FIXED INCOME INVESTMENT SECURITIES

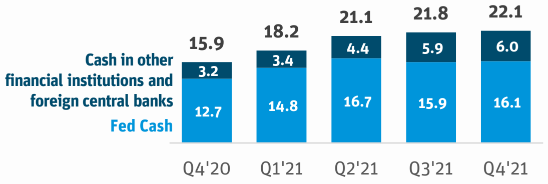
$ Billions



	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21
Portfolio Duration	3.7y	4.8y	4.5y	4.5y	4.0y
Hedge-adjusted	*N/A*	*4.3y*	*3.9y*	*4.0y*	*3.7y*

AVERAGE CASH AND EQUIVALENTS

$ Billions



	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21
Securities Purchases	11.4B	24.0B	21.2B	25.3B	27.2B

Flexible liquidity management strategy supports strong, profitable growth

Robust liquidity solutions to meet clients’ needs

- **40+** LIQUIDITY MANAGEMENT PRODUCTS
- **$183B** Q4’21 AVERAGE ON-BALANCE SHEET DEPOSITS
- **$208B** Q4’21 AVERAGE OFF-BALANCE SHEET CLIENT FUNDS
- **Continued product development** TO BETTER SERVE CLIENTS

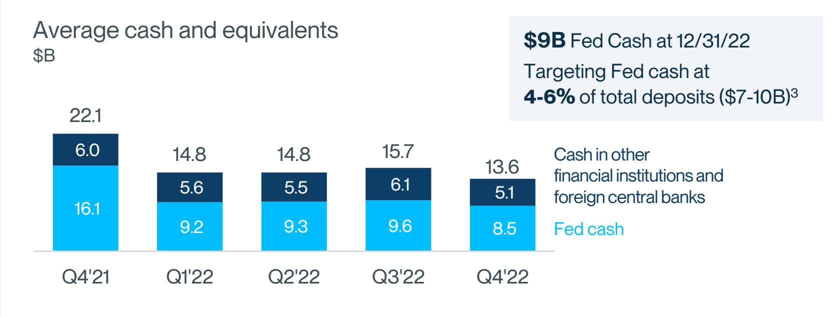
Ability to support client funds growth on- and off-balance sheet, while optimizing pricing and mix

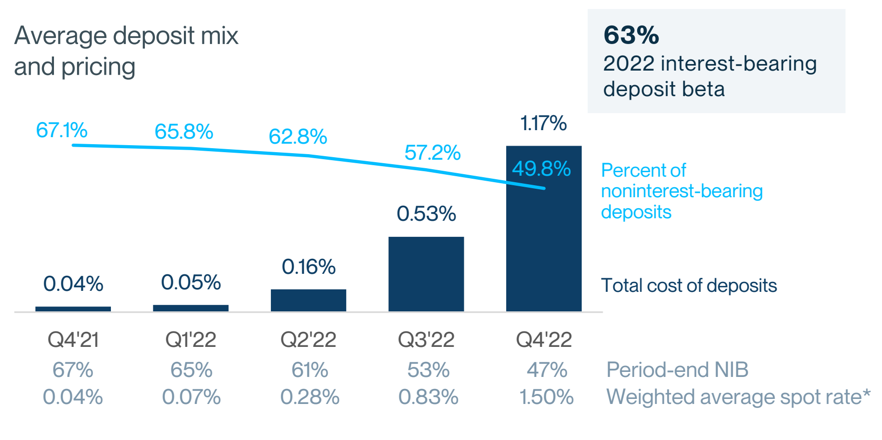
On- vs. off-balance sheet considerations	Target range	Flexibility
Bank tier 1 leverage ratio	7-8% internal target	$2.2B SVBFG liquidity as of 12/31/21, a portion of which can be downstreamed to Bank
Profitable spread income	75-100 bps minimum target spread between new purchase yields and deposit costs	~1.65-1.75% expected new purchase yields (assuming no changes to interest rates) 4bps Q4’21 average cost of deposits enables healthy margins Focused on **supporting yields** and **mitigating OCI risk** from rising rates
Liquidity	$8-10B average Fed cash target*	~$3.0-4.0B expected portfolio cash flows per quarter through 2022 $130B borrowing capacity as of 12/31/21 ($5.5B repo, $2.2B Fed Lines, $7.1B FHLB & FRB and $115B of unpledged securities)

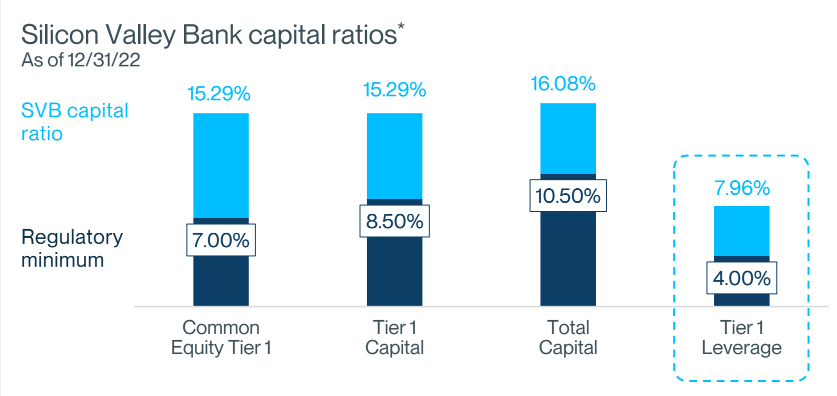
Dinâmica em 2022

- 2022
  - Apesar das piores condições de mercado para o setor tech/VC, o deposit outflow não assustava. Tomou $10bi de resgate no ano, equivalente a 5% da base.
  - Ainda por cima cresceu a base de correntistas. Chegou no fim de 2022 com $13,6bi em caixa, o que dado o ritmo de deposit outflow os deixavam confortáveis.
  - Simplesmente continuavam “ignorando” o unrealized losses, uma vez que julgava ter liquidez suficiente para o ritmo de depósito. O resultado reportado em 2022 piorou por queda de NIM (custo de funding/depósitos) e alguma piora de PDD (ainda em nível saudável). ROE saiu de 17% para 12%.

Credit quality metrics	Q4’21	Q1’22	Q2’22	Q3’22	Q4’22	
	0.01%	0.05%	0.12%	0.08%	0.15%	Net charge-offs[1]
	0.14%	0.10%	0.13%	0.11%	0.18%	Non-performing loans[2]
Provision for credit losses $M	$48	$11	$196	$72	$141	







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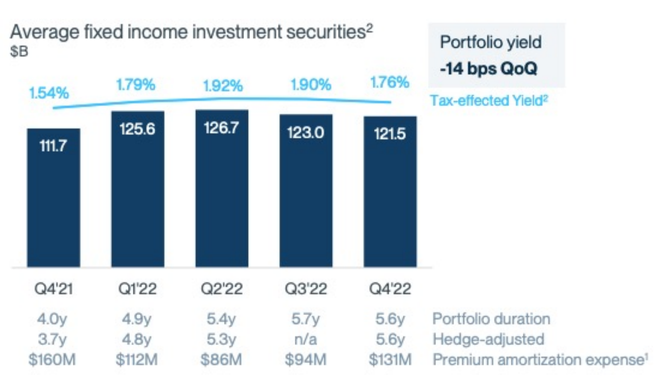
Não Existe Negócio a Prova de Decisões Ruins

- No 2Tri22 desfez os hedges dos títulos AFS e reduziu o ritmo de compra de títulos.
- A duration do portfolio continuou subindo ao longo do ano de 2022, saindo de 4 anos para 5,6 anos.
- Em 2022, perderam todo o Book Value na marcação a mercado dos títulos.



Navigating changing rates: shifting focus to managing downrate sensitivity

Past actions to manage AOCI risk helped support TBV as rates increased

$11B
Receive-floating AFS fair value hedges added in 2021

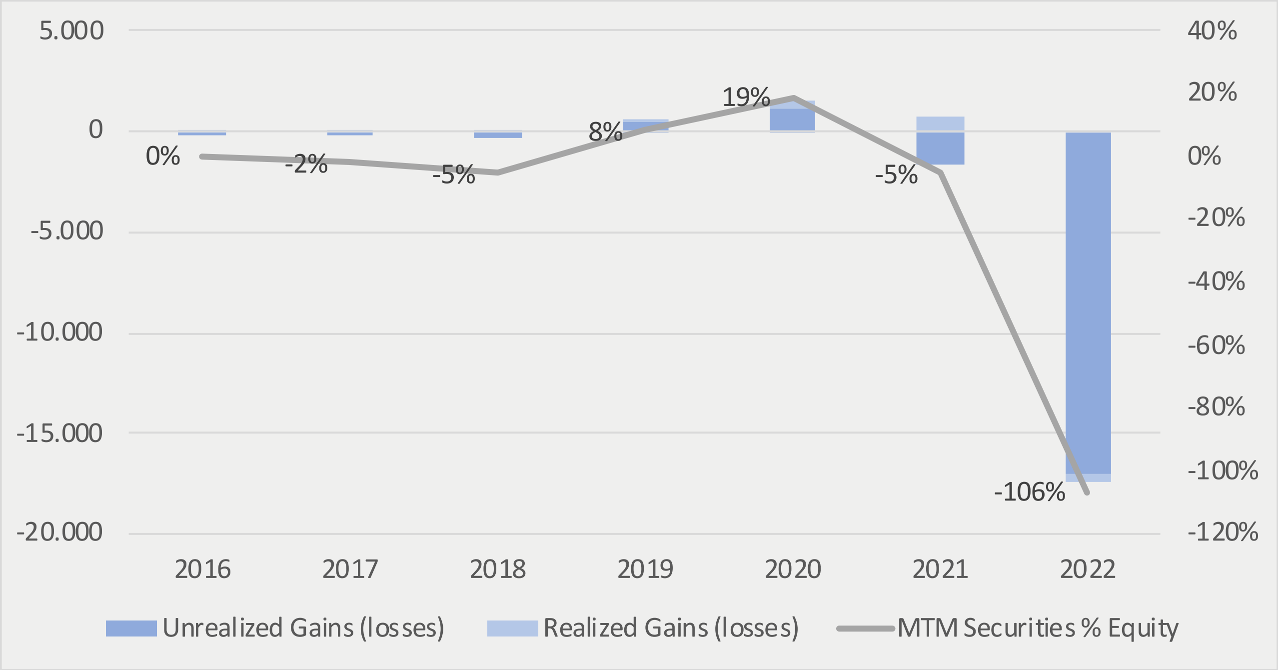
Low
% of fixed-income securities held in AFS

Higher rates and increased recession risk presented opportunity to capture gains and reduce asset sensitivity

Monetized AFS fair value hedges

$49M
Net pre-tax realized gains in **Q1'22** noninterest income from unwind of **$5B** AFS hedges (at a **$204M** gain) and sale of related securities

$313M
Pre-tax locked-in gains from unwind of remaining **$6B** AFS hedges in **July 2022** (to be amortized into interest income over the life of the related securities, ~7 years)



Bank Run

- **Na quarta-feira, dia 08 de março, após o fechamento do mercado, o SVB veio a mercado anunciar um follow on para levantar $2,250bi (via equity e preferred) sendo que o General Atlantic já tinha comitado $500m.**
- Anunciaram que tinham vendido todo o portfolio de títulos AFS, gerando $1,8bi de perdas (comparado lucro anual de $1,5bi). Ainda assim falavam em reinvestir os proceeds encurtando duration mas dessa vez hedgeando.
- Em nenhum momento, comentava sobre o tamanho do balanço em HTM, na realidade ainda olhava para o pagamento de coupon/vencimento do HTM como uma fonte de liquidez. Afirmava que em 28 de fevereiro tinha acesso a $180bi em liquidez.
- Anunciou os números de fevereiro e o total de depósitos estavam em $165bi, ou seja, **o outflow até então era de apenas $8bi em 2023**.
- No dia seguinte, 09 de Março, alguns fundos de VC (entre eles o Founders Fund) aconselharam as empresas investidas a sacarem seus depósitos. Nesse dia o volume foi de $40bi de saída. No dia 10, o FDIC interveio.
- Pelos números da aquisição do First Citizen, sabemos que ele teve **saques acima de $100bi em 2 semanas.**

SVB + First Citizens – O fim

- Aquisicao pelo First Citizens Bank
  - Comprou em leilao organizado pelo FDIC com desconto de 15% ao valor de face dos ativos que comprou.
  - 110bi em ativos, 72bi de carteira de credito e 57bi em depositos.
  - **Não ficou com nenhum título (SVB ainda tinha $90bi in HTM).**
  - Ficou com basicamente toda a carteira de crédito originada pelo SVB.
  - Vai manter as 20 agências que comprou.
  - **SVB perdeu U$117bi em depósitos ao longo de 2023.**
  - A ação do First Citizens subiu 53% no dia do anúncio.

	Q4 2022	Feb 23 - Update	First Citzen Acquisition
Cash	13.803		35.264
Securities	120.054		0
Loans	73.614	74.000	72.114
Other assets	4322		2.704
Total Assets	**211.793**		**110.082**
Deposits	173.109	165.000	56.491
Borrowings	19.348		34.605
Other Liabilities	3.041		2.536
Total liabilities	**195.498**		**93.632**
Equity	16.295		
Discount bid on assets			16.450

→ Linha com FIDC @3,5%

Expanding our portfolio and unlocking new business opportunities
- Unlocks incremental top-line growth by adding legacy SVB's Global Fund Banking business to serve private equity and venture capital clients and introducing First Citizens' consumer, business services, wealth and commercial offerings to legacy SVB clients.
- Accelerates growth of First Citizens' wealth business by adding the digital capabilities, talent, and solutions of SVB Private.

Building on our capabilities in the innovation and technology sectors
- Combines First Citizens' tradition of relationship banking, creativity, and stability with the strengths, relationships and expertise of legacy SVB's talented employees.
- Positions First Citizens to further serve venture-backed companies and tech startups in the Research Triangle Park and nationwide through the addition of legacy SVB's customer and employee base.

Diversifying our client base while continuing to prioritize relationship banking
- Leverages deep client relationships served by legacy SVB's Global Fund Banking business to expand reach of First Citizens to the venture capital and private equity communities.
- Continues First Citizens and legacy SVB's shared approach to relationship banking and offering highly tailored solutions to serve unique needs of all customers.

Maintaining our fortress balance sheet and culture of strong risk management
- Capital ratios remain robust and remain within target ranges post-acquisition.
- Liquidity remains strong and stable, driven by a conservatively managed investment portfolio, and is enhanced by the transaction, which creates additional balance sheet funding and access to additional contingent funding.
- Shared-loss agreement with the FDIC limits credit risk on the acquired loan portfolio.
- Continued commitment to First Citizens' strong culture of risk management.