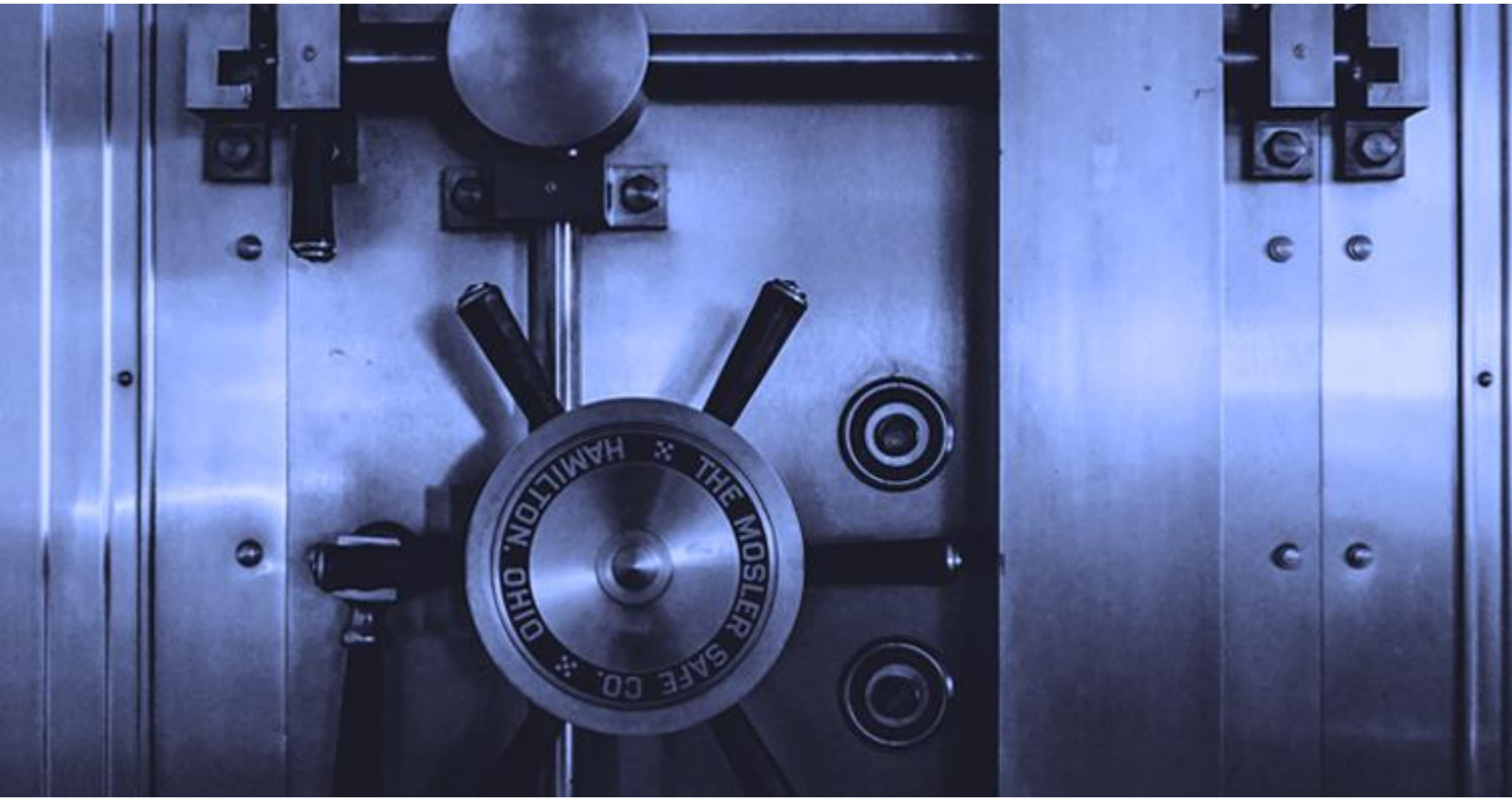

2023 Bank Failures — What Happened?

In what is considered the largest bank failure since the 2008 recession, the March 2023 failures and voluntary closures of Silvergate Bank, Silicon Valley Bank (SVB), and Signature Bank have sent shockwaves through the financial industry. This white paper will seek to explore and identify the cause of these failures and how Monex has mitigated the associated risk.

On March 8, 2023, California-based Silvergate Bank announced it would wind down operations and voluntarily liquidate following significant losses resulting from a major bank run. Silicon Valley Bank failed on March 10, 2023, due to a similar bank run. Regulators swiftly assumed control of SVB as a result. In the days following, Signature Bank was closed by regulators to stave off further damage to the broader financial system. Following these failures, First Republic Bank experienced a similar depositor flight. Despite industry-wide efforts to rescue the bank, the fate of First Republic still hangs in the balance.

Key similarities and likely contributing factors for these failures included an extensive portfolio of crypto-currency businesses and tech-start- ups, open investigations by federal regulators prior to the collapses, interest rate increases, and insufficient risk considerations, among others.

The following report will detail an in-depth analysis of each bank's failure.

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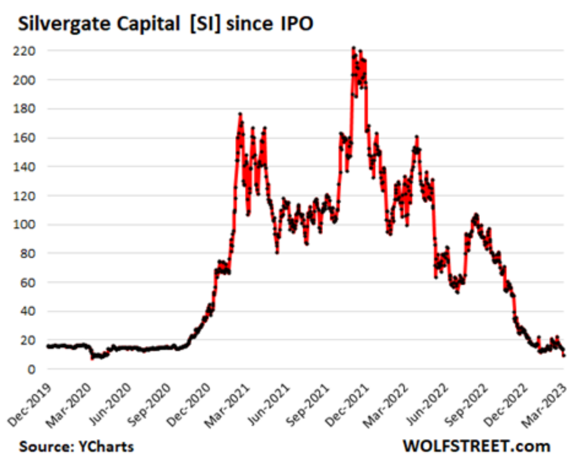
Silvergate Bank

March 8, 2023

01 Current Status:
Voluntarily Liquidated

02 Major Institution for the Crypto industry beginning in the 2010s

03 Silvergate was the subject of a DOJ investigation into business relations with FTX Founder Sam Bankman-Fried, charged with twelve counts of fraud.



Background

Founded in 1988 in California, Silvergate Bank initially debuted as a savings and loan association and, until the 2010s, continued to operate in that capacity. However, Silvergate switched priorities in response to the rapidly growing crypto market. The bank sought and received regulatory approval in 2014 to operate in the cryptocurrency industry. This move helped double its assets by 2017 by providing financing and banking services to crypto firms that could not secure funding from more risk-averse, conservative banks. Because of the boom in crypto-currency markets extending into 2020, Silvergate achieved a 90% deposit rate in crypto-related funds.

Crypto Industry Risks Realized

Due to its heavy investment in these crypto-currency firms, Silvergate experienced rapid growth and prosperity throughout 2022. However, by the end of 2022, with the crypto market cooling down, followed by the failure of crypto-currency giant FTX, public fear of and mistrust in crypto resulted in an abrupt and notable deposit decrease (68%) at Silvergate, followed by a mass withdrawal of client deposits, totaling nearly $8 billion.

Bank Run Response and the End of Silvergate

In the wake of this massive bank run, Silvergate could not satisfy the withdrawal demands as it did not have the available cash on hand. As a result, in the fourth quarter of 2022, they lost over $700 million. Silvergate also borrowed from other banks to maintain its liquidity. These attempts to keep afloat proved fruitless, with Silvergate announcing it would " wind down operations and voluntarily liquidate the bank in an orderly manner and accordance with applicable regulatory processes." In the wake of this announcement, bank stocks fell by 44%.

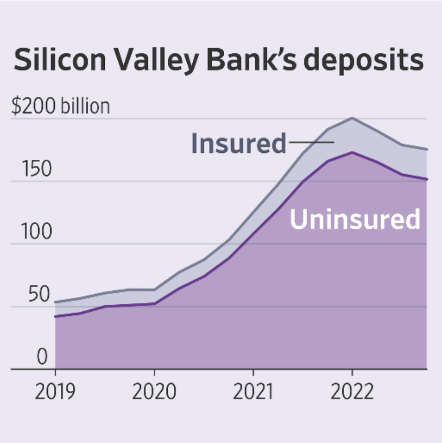
Silicon Valley Bank

March 10, 2023

01 Current Status: Collapsed, Purchased by First Citizens

02 SVB, the 16th largest bank in the US by the measure of total assets, is the most significant bank failure since the 2008 Recession.

03 SVB was the subject of a Fed Reserve Review, resulting in the bank being placed under a supervisory review in 2022 due to its failures to fix citations issued initially.



Source: The Wall Street Journal

Background

Like Silvergate, Silicon Valley Bank was founded in California in the early 1980s. Silicon Valley Bank (SVB) targeted and was heavily invested in serving the technology industry and startups. SVB financed nearly half of the healthcare and Tech entities backed by US venture capital. Notable bank clients included household names such as Airbnb, Fitbit, and Pinterest. The bank was one of few institutions willing to offer private banking and personal credit to individual entrepreneurs in the tech world. SVB had an appetite for risky new companies, placing their faith in the rapid growth of these industries over the last few decades.

Ill-Conceived Investments

While there remains some controversy over what additional factors contributed to SVB's failure, the major element appears to have been the bank's investment and influx of increased deposits (the result of covid era stimulus) in long-term treasury bonds. SVB believed such investments would promise steady returns if interest rates remained low. However, to combat inflation, the Fed began to raise interest rates, resulting in a drop in the market value of those bonds, effectively resulting in massive losses for SVB. In addition, several factors in the tech industry, including massive layoffs and increased difficulty in securing private financing, led depositors to withdraw their funds en masse, essentially cash-starving SVB. As a result, the bank failed.

Federal Intervention

Upon reviewing SVB's finances, the FDIC took control of the bank, citing inadequate liquidity and insolvency. Despite 89% of SVB's deposits being uninsured, the treasury granted the FDIC the power to guarantee any uninsured deposits to sustain broader economic confidence in the US. The bank is to be acquired by First Citizens Bank.

Signature Bank

March 12, 2023

SIGNATURE BANK®

01 **Current Status**: Closed by the state of NY, sold to NY Community Bancorp/Flagstar Bank.

02 The Signature Bank was the subject of political and social controversy due to its ties to the Trump organization and open support of politicians interested in easing Dodd-Frank Regulations.

03 Post Collapse, the DOJ and SEC began an investigation into the insufficient AML monitoring program that undoubtedly led to the facilitation of illegal transactions/ money laundering.

Background

Founded in New York in 2001, Signature Bank was a full-service commercial bank serving wealthy clients in commercial real estate, private equity, mortgage servicing, and venture banking industries. In 2018, Signature began providing services for the crypto industry. Crypto businesses enthusiastically engaged with the bank, boosting stock prices four times in just under a year. For better or worse, Signature earned the label of a 'crypto bank.' Before its collapse, the bank decided to attempt to shed some Relationships with digital currency providers, but these efforts proved inadequate.

Silicon Valley's Snowball Effect

While Signature Valley knew its reputation as a 'crypto bank' and actively attempted to drop this connotation, little could be done in time. After the collapse of Silicon Valley Bank, customers began to look at crypto banks with uncertainty and mistrust. As a result, clients withdrew billions of dollars from the New York-based bank, and stocks fell 23%, the largest decline since Signature's IPO in 2004. In the wake of the stock nosedive, volatility halted trading. As a result of these events, Signature has designated a 'systemic risk to the financial system' formally closed by state regulators and entrusted to the FDIC's Control.

FDIC to the Rescue

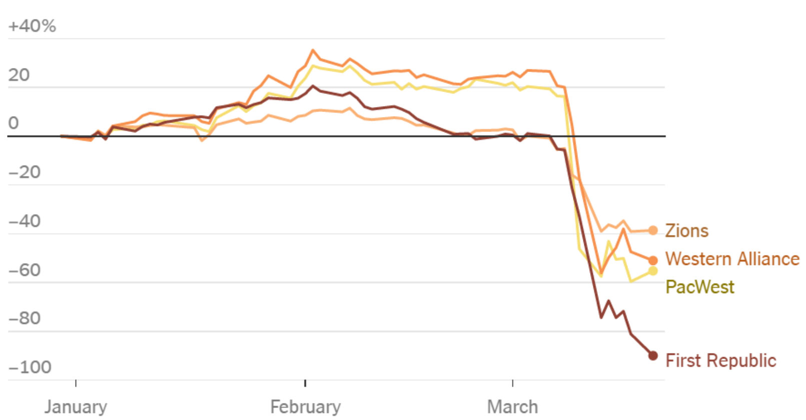
Immediately following the closure, the FDIC established a bridge bank to ensure all assets could be sold to bidders at auction. The failure of Signature Bank significantly affected various industries, especially crypto firms like Circle and Coinbase, real estate and renovation industries, and even Broadway. Like SVB, the FDIC was granted the ability to guarantee all deposits, whether insured or not.

First Republic Bank

And the fate of Midsize Banks

First Republic Bank, a commercial bank and wealth management provider headquartered out of San Francisco, continues to suffer server losses in the value of its shares due to public panic regarding the March bank failures. Additionally, recent downgrades by rating agencies have only heightened fears over the stability of regional banks. Unlike the fates of Signature, SVB, and Silvergate, First Republic was able to secure funding from some of the larger banks, including JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, and Truist Financial, resulting in $30 Billion in support funds being deposited with First Republic. Despite this emergency assistance, shares continue to fall throughout March and April. The efforts by big banks to stop another bank run have the opposite effect, diminishing depositor confidence as customers continue to withdraw billions. While First Republic Bank has not formally failed, its fate hangs in the balance and rests on the confidence of investors and depositors.

Percent change in the stock price of four regional banks since the start of the year



Note: Data through Monday, March 20 • Source: FactSet • By The New York Times

The MONEX Difference

- Monex does not do business with Crypto Firms.
- Monex does not rely on or accept traditional deposits and therefore is not at risk of a 'bank run.'
- Monex maintains a diverse client base by industry to avoid oversaturation in any sector.
- Monex does not do business in high-risk industries.
- Monex maintains a robust AML program that promotes thorough vetting of prospective clients and reviews them at a risk-based interval.
- As Monex is not a bank, it is relatively safe from the loss of confidence in the banking sector.

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