

Digest

Silicon Valley Bank Bankruptcy

March 2023



Summary

The largest US banks (12/31/2022)

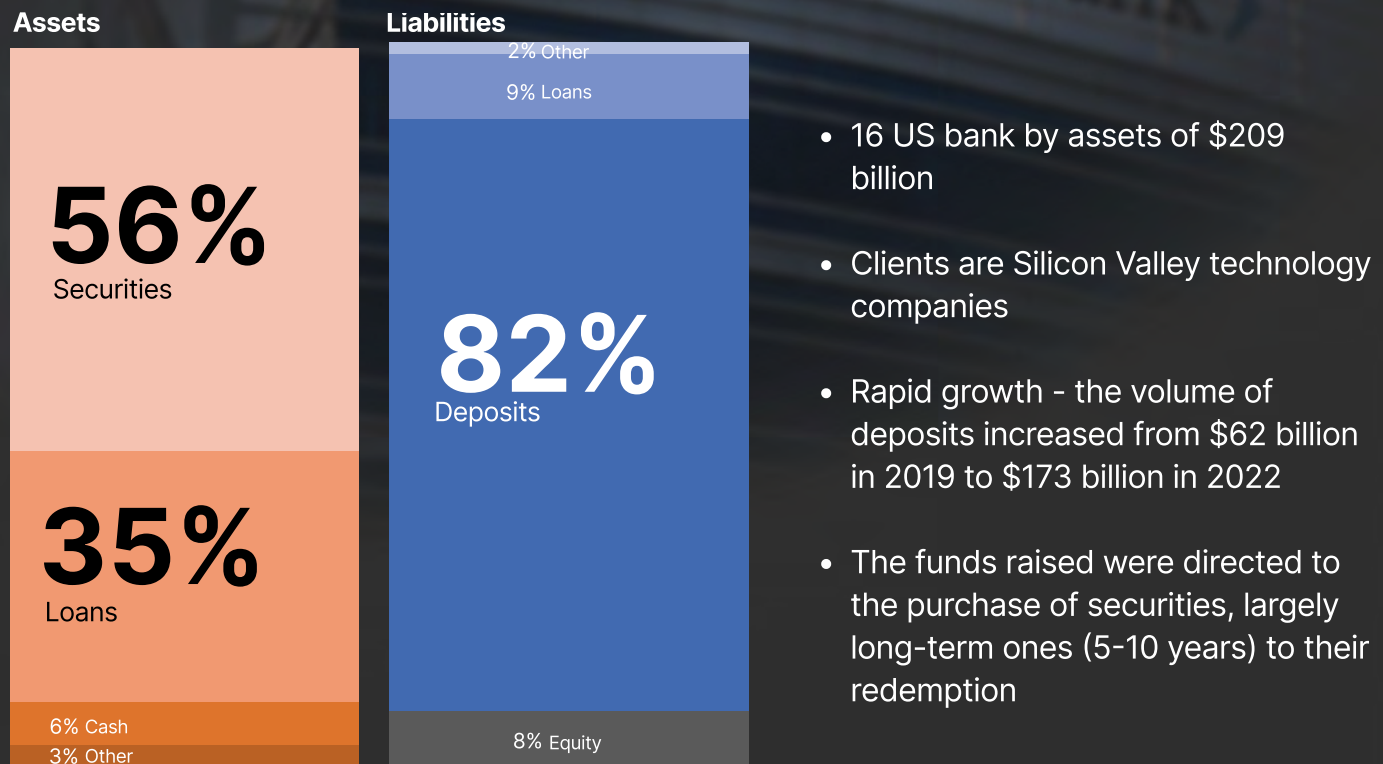
Impact of SVB bankruptcy:	Degree of influence	Comment
• on the stock market	Moderate	Stock sale
• on the investment-grade bond market	Limited	-
• on the high yield bond market	Moderate	High yield bond sale
• on the US economy	Limited	-
• on the economy of Kazakhstan	Limited	The external debt of banks is \$8 billion, it was \$39.2 billion in 2008

What was SVB like

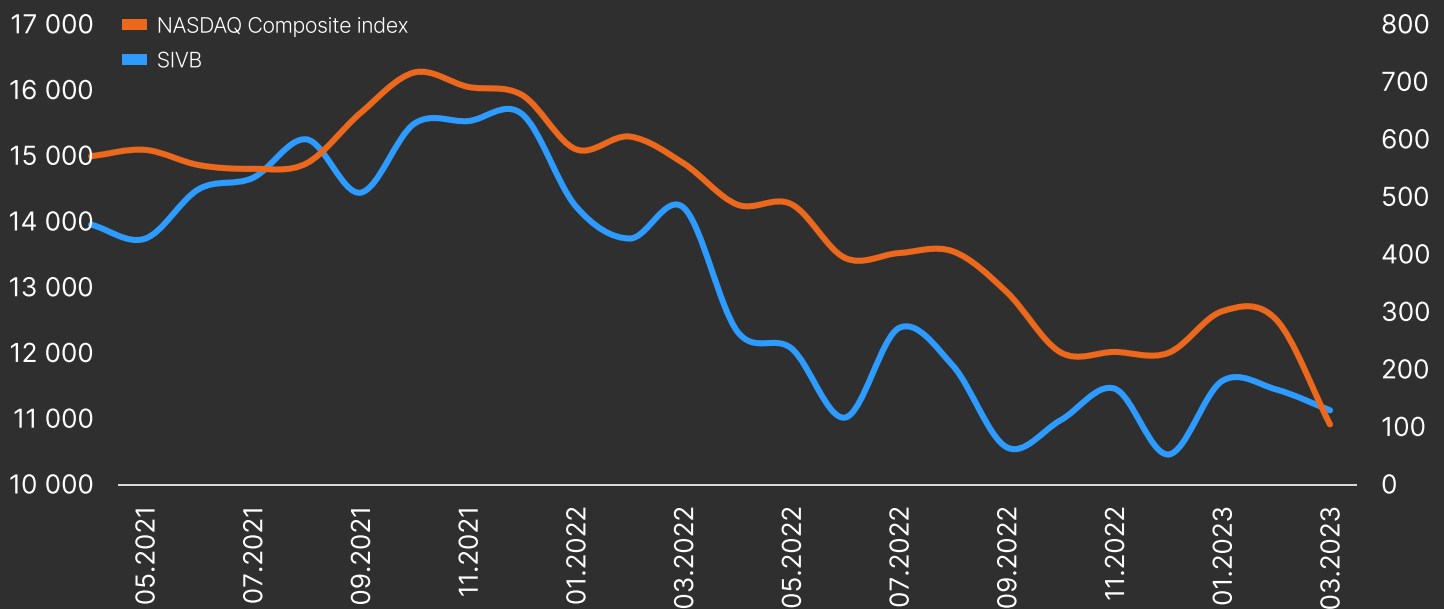
Bank Name / Holding Co Name	Nat'l Rank	Bank Location	Consol Assets (Mil \$)	Domestic Assets (Mil \$)	Domestic Branches	Foreign Branches
JPMORGAN CHASE BK NA/JPMORGAN CHASE & CO	1	COLUMBUS, OH	3,201,942	2,480,688	4,791	33
BANK OF AMER NA/BANK OF AMER CORP	2	CHARLOTTE, NC	2,418,508	2,291,312	3,819	24
CITIBANK NA/CITIGROUP	3	SIOUX FALLS, SD	1,766,752	1,069,311	661	144
WELLS FARGO BK NA/WELLS FARGO & CO	4	SIOUX FALLS, SD	1,717,531	1,693,335	4,670	10
U S BK NA/U S BC	5	CINCINNATI, OH	585,136	574,872	2,236	1
PNC BK NA/PNC FNCL SVC GROUP	6	WILMINGTON, DE	552,307	550,670	2,617	1
TRUIST BK/TRUIST FC	7	CHARLOTTE, NC	546,228	546,148	2,123	0
GOLDMAN SACHS BK USA/GOLDMAN SACHS GROUP THE	8	NEW YORK, NY	486,967	439,365	2	2
CAPITAL ONE NA/CAPITAL ONE FC	9	MC LEAN, VA	453,313	452,784	292	1
T D BK NA/TD GRP US HOLDS LLC	10	WILMINGTON, DE	386,799	386,799	1,163	0
BANK OF NY MELLON/BANK OF NY MELLON CORP	11	NEW YORK, NY	324,646	236,858	2	15
STATE STREET B&TC/STATE STREET CORP	12	BOSTON, MA	298,020	209,177	2	10
CITIZENS BK NA/CITIZENS FNCL GRP	13	PROVIDENCE, RI	226,402	226,402	1,145	1
FIRST REPUBLIC BK/	14	SAN FRANCISCO, CA	212,639	212,639	72	0
MORGAN STANLEY PRIV BK NA/MORGAN STANLEY	15	PURCHASE, NY	209,664	209,664	0	0
SILICON VALLEY BK/SVB FNCL GRP	16	SANTA CLARA, CA	209,026	194,514	16	1

SVB group took the 16th place

What was SVB like



Causes of the collapse



Background:

- The increase in US Federal Reserve rates has reduced the market price of bonds bought with deposit money. The unrealized loss was \$15.9 billion with an equity of \$15.8 billion in 2022
- The tech industry's systemic decline was reflected by a decrease in deposits from \$198 billion in March 2022 to \$173 billion in December 2022

Reason:

- A low percent of liquid assets and equity (low regulatory requirements)
- Highly concentrated client base (clients of tech companies, large venture funds). 97.3% of deposits above the guaranteed amount

Timeline (March 2023)

- **The unrealized loss was \$15.9 billion with an equity of \$15.8 billion in 2022**
- **March 8, 2023** – to obtain liquidity and subsequent plans to increase equity, SVB sells the Central Bank for \$21 billion at a 9% loss.
- **On March 9** investors begin to worry, and depositors begin to withdraw funds more actively (requests for \$42 billion, \$16 billion succeeded)
- **On March 10** the bank is declared bankrupt

Consequences are affected companies

Companies that held funds in the bank

Company	Deposit amount	Share of assets	Result
Roku Inc	\$487 million	11.04%	-3.67% after the trading hours on 03/10
Roblox Corporation	\$150 million	2.79%	-0.82% after the trading hours on 03/10
AcuityAds Holding	\$55 million	52.74%	Trading is suspended after falling by 9.2%
Rocket Lab	\$38 million	3.84%	-4.17% in real-time quotes on 03/10
Sangamo Therapeutics	\$34.4 million	6.12%	-8.3% in trading hours 03/09 and 03/10
Protagonist Therapeutics	\$13 million	4.61%	+2.9% in trading hours on 03/10
Eiger BioPharmaceuticals	\$8.3 million	5.80%	-22.8% in real-time quotes 03/09 and 03/10
ETSY Inc	-	-	Did not specify the amount on the deposit in SIVB
BILL Com Holdings	-	-	Did not specify the amount on the deposit in SIVB
6 Hong Kong companies	-	-	Did not specify the amount on the deposit in SIVB

Consequences are estimated losses

TOP 10 bank shareholders (losses are not catastrophic for SVB shareholders)

Shareholder	Share	Amount as of 02/28/2023
The Vanguard Group, Inc.	10.85%	1,847,706,188
SSgA Funds Management, Inc.	5.22%	888,155,256
BlackRock Fund Advisors	5.18%	882,505,419
Alecta Pension Insurance Mutual	4.46%	758,622,441
JPMorgan Investment Management, I...	3.67%	625,624,527
Artisan Partners LP	2.75%	467,920,315
Geode Capital Management LLC	2.12%	360,645,726
Harding Loevner LP	2.01%	341,709,696
Franklin Mutual Advisers LLC	1.68%	285,802,239
Capital Research & Management Co....	1.57%	266,549,288

Consequences are estimated losses

TOP 10 funds that held SVB shares - losses are not catastrophic

Fund	Fund share in the company	Fund assets, USD billion	Company share in the fund
Vanguard Total Stock Market Index...	3.07%	158	0.33%
Vanguard Mid Cap Index Fund	2.33%	54	0.74%
Vanguard 500 Index Fund	2.32%	172	0.23%
JPMorgan Large Cap Growth Fund	1.94%	42	0.79%
Fidelity 500 Index Fund	1.09%	365	0.05%
SPDR S&P 500 ETF Trust	1.05%	360	0.05%
Government Pension Fund - Global ...	1.01%	1,262	0.01%
iShares Core S&P 500 ETF	0.89%	290	0.05%
Amplify Energy Small Cap Mid Cap F...	0.86%	87	0.55%

Other banks at risk



- High level of capitalization;
- The risks are significantly reduced by the Dodd-Frank Act;
- They may increase the deposit base due to transfers of deposits from riskier banks;

- Regional banks with low capitalization;
- Concentrated deposit base;
- A high percentage of the unrealized loss

What is known for now

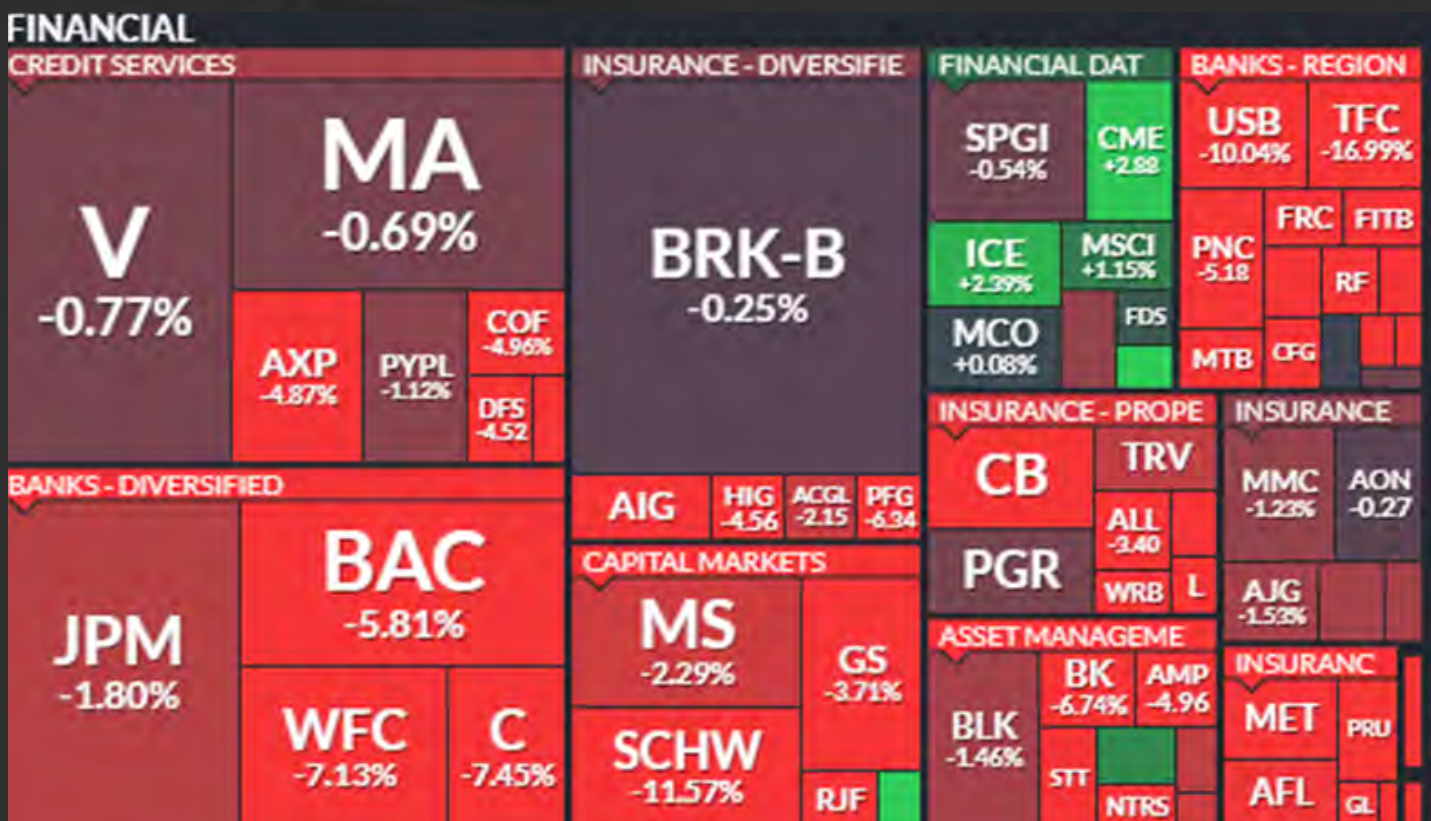
- President Joe Biden promised that the authorities will put to justice for the situation with the bank's bankruptcy
- The Fed, FDIC and the Ministry of Finance have developed a plan to support depositors and urgent financing of banks, other financial institutions related to the bankruptcy of Silicon Valley Bank.
- Shareholders and some holders of unsecured debts will not be protected. **Only depositors, not the bank itself.**
- FDIC will sell the assets of Silicon Valley Bank, which will allow making payments on all uninsured deposits, the sale of Silicon Valley Bank to an investor is not excluded.
- HSBC buys the British subsidiary of Silicon Valley Bank for 1 pound.
- PS. First Republic Bank has access to financing up to \$70 billion from the Federal Reserve and JP Morgan.



Market reaction for 03/13/2023

S&P 500: **-1.45%**NASDAQ: **-1.38%**DXY: **-0.56%**BTC: **+13.33%**ETH: **+11.6%**DOGE: **+7.61**

Financial sector stocks in S&P 500 Index



- Shares of banks at risk declined at double-digit rates.
- The demand for crypto assets is growing due to the declining public trust in the banking system. Major cryptocurrencies add more than 10%.
- However, the collapse of SVB affected the price of stablecoins. Circle had \$3.3 billion in SVB. The USDC stablecoin has lost more than 10% of its value and its dollar peg.
- The yield curve of US government bonds declined significantly, while the price of gold rose above \$ 1,900 per ounce.

Possible negative scenario



Due to delayed payments on deposits in SVB, the technology sector may face insolvency (domino effect)



The growth of household and business distrust of other banks (Bank run) or the flow of deposits from regional banks to systemic banks, which will lead to the bankruptcy of small banks



Banks may begin to increase the share of short-term highly liquid assets (including cash), and this will lead to a decrease in demand for long-term securities and their sale
Problems in the financial market may spill over into the economy (as in 2008) and a recession may begin.



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The banking sector of the Republic of Kazakhstan is more prepared compared to 2008: the external debt of banks is \$8 billion, it was \$39.2 billion in 2008, and the share of liquid assets is 40% at an optimal level of 20%, the share of the Central Bank in assets is only 22%



Kazakhstan will feel pressure through following channels:

- fall in oil prices and tenge devaluation
- risk growth is a premium for all investment instruments
- impairment of residents' external assets

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