Silicon Valley Bank (SVB) Impact

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SVB Impact

- On March 9th, a bank run on Silicon Valley Bank (SVB) resulted in $42Bn of deposits or approximately ¼ of the bank's deposit funding base to be depleted within a 24 period; this was truly historic, being the fastest bank run of this scale in US banking history. The genesis of the bank run was a poorly communicated and timed capital raise, which led investors to worry about the bank's solvency given large amounts of mark-to-market losses in their investment securities portfolio. The outcome resulted in the Federal Deposit Insurance Corp (FDIC) & regulatory counterparties taking SVB into receivership, with the Federal Reserve Board announcing all deposits will be backstopped (including uninsured deposits, which make up the bulk of SVB's deposit base). **This was a liquidity[1] event that led to bank insolvency, rather than a credit related event typically seen during the 2008 Global Financial Crisis; this was exacerbated by SVB's industry concentration risk to the broader Venture Capitalist community.**

- **Canadian Banks:** There is minimal direct exposure from the SVB fallout to the Canadian banks. Liquidity is strong at the Canadian banks with all of them having LCRs (Liquidity Coverage Ratio) greater than 100% (137% average), where SVB did not meet US Federal Reserve liquidity requirements. Direct deposit dynamics are different in Canada as deposits have been growing in Canada (albeit demand deposits going to term deposits) while these deposit outflows are more notable in the US (demand deposits to money market). All Canadian banks have between 1-3% direct tech lending exposure, which is immaterial.
  - We might incrementally see deposit flows pick up which would pressure NIMs (Net Interest Margin) but the CDN banks are diversified with multiple lines of business, and lend to a diverse cohort of industries while taking deposits from a more sticky deposit base à the risk of an SVB liquidity event at the CDN banks is **VERY LOW!**
  - BMO and Royal Bank do have some California exposure (driven by Bank of the West and City National Bank transactions) but both are about high single digit exposures from a loan/deposit exposure basis. **BMO's Head of Investor Relations has said they are actually a net beneficiary of deposit flows from SVB given depositors are looking for safe haven institutions (Positive).**

1-Liquidity is the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.

   - Merger &Acquisitions ramifications: There will likely be lower accretion from the closed BMO BoW (Bank of the West) deal given they likely have to slow loan growth given that deposits (funding) are declining at a faster rate than where the bank first underwrote the deal. TD is currently negotiating a close-date extension on their First Horizon Bank (FHN) deal but given there is a ≈5Bn USD difference between the initial deal price and today's FHN market price, there will likely be a downwards revision in total price paid by TD.

- **JPMorgan:** JPM is the largest money centre bank in the US, with a diverse business across consumer banking, corporate and investment banking, commercial banking, and asset & wealth management. JPM is well diversified, with about equal contribution to revenue from both "spread" business and fee income; SVB's business model is 100% spread oriented and less diverse. From a liquidity basis, the funding base of JPM is diverse, with only 59.1% uninsured deposit exposure (SVB was essentially 100% uninsured); this is further illustrated by an LCR ratio of 112% which is materially above the 100% regulatory limit. JPM is also well capitalized, with 13.5% Common Equity Tier 1 Capital ratio representing a **total loss absorbing capacity of $486Bn.** All money centre banks are likely to be beneficiaries of deposit flows from regional banks, as they are viewed as "too big to fail". This future deposit flow tailwind compounds JPM's already industry leading scale advantage and technology stack makes JPM both an anti-fragile bank and a net-winner over time from the regional bank fallout.

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