

March 12, 2023

**Dear Lexicon Bank Stakeholders,**

As you can imagine, in light of recent developments with Silicon Valley Bank (SVB) and the recent joint statement by the Department of the Treasury, Federal Reserve, and FDIC regarding actions taken to protect depositors among other things, both members of the Lexicon Board of Directors and members of management have been receiving questions regarding how these developments might directly, or indirectly, impact Lexicon Bank. After speaking with Stacy Watkins, our President and CEO, we decided as Chairman of the Board I should provide an update. As I am not a lifelong banker, I may approach this from a slightly different perspective.

I am going to do my best to try to avoid “bank speak” or at least explain it where possible to answer those questions below. The lawyers want me to remind everyone that all of these numbers are unaudited estimates, and not to rely on anything here to trade our stock, or as any sort of prediction of future performance.

As to our financial position as of the end of February 2023, Lexicon had approximately \$227MM in deposits, \$139MM in outstanding loans, and \$75MM in cash or cash equivalents like Fed Funds (which are 100% immediately available as cash with no “discount”) and stockholders’ equity of \$25MM.

It is probably safe to say that virtually all banks hold various government securities, and Lexicon is no different. At the end of February, we held approximately \$36.7MM in total securities that are worth less due to interest rate increases than what we had paid for them. Although we are generally required to mark those to market (which in “English” means, show the amount of money we would lose on them if we sold them today), we already know the estimated loss would be \$3.8MM (before tax) as of February month end, \$3.7MM of which is already recorded as a reduction of our stockholders’ equity. SVB apparently held most of its securities in a fashion that did not require them to be marked to market. It isn't clear to me that SVB had any material amount of equity remaining if it actually marked its securities to current market prices.

In addition, banks often have the ability to borrow from other banks, or other government agencies if they need to add to their liquidity, ideally on a short-term basis. Again, like most banks, Lexicon maintains a credit line with the Federal Home Loan Bank (“FHLB”). Unlike SVB, which appeared to be the single largest debtor to the FHLB with approximately 20% of all FHLB loans written, Lexicon has never drawn down any portion of its credit line with the FHLB, maintains no debt balance with them, and never has. Lexicon has other credit lines available as well in case it needs them for liquidity. It has never drawn down on any of those either, has no debt balance with them, and never has. We keep the lines open just to be prudent. We run the bank with the goal of never needing

to use them, and we certainly hope that will continue to be the case.

But, the above doesn't really tell the entire story, Lexicon holds almost 40% of its deposits in either cash or cash equivalents (ie. Fed Funds). It is incredibly unusual for any bank to hold 40% of its deposits in cash. This is because a bank normally makes money by lending those deposits, or, as in the case of SVB purchasing long-term securities. I am not here to claim any sort of brilliance to end up where we are. In some ways, timing was on our side.

We opened in late 2019, and COVID came soon thereafter slowing the lending market dramatically. That said, as the market improved, we did make conscious decisions to avoid putting too much money in long-term securities. We decided it would be more prudent, for our investors, depositors, and our future borrowers, to hold cash. When it appeared obvious that the Fed was going to continue to increase interest rates, we realized that, in many cases, we could earn as much, and in some instances more money, by holding that cash in immediately available funds with the federal reserve (which essentially pays us something similar to the "Fed Funds rate" you probably read about in the news on an almost daily basis now). This is defined as "zero risk". Again, this is a strategy that benefits both our investors and our depositors. Although I am not an economist, it appears fairly clear to me that the Fed wants banks to write fewer loans to help break inflation, and they are offering banks higher and higher rates to persuade them to do just that. As the saying goes, we are not "fighting the Fed," we are trying to do what they are strongly incenting us to do.

So do we still write loans? Of course, we do. We write them in our community, when it makes sense, and when we have the liquidity to do so. But, we don't have to. We don't have to make decisions that risk our liquidity or our solvency. We can wait to be sure we are selective and smart about all the loans, and investments we make as a bank. We are not trying to show a great quarter, we are trying to build a great bank.

Which reminds me, a lot of banks, just like a lot of large businesses, are being run by people using "other people's money". Sometimes that causes them to make decisions that benefit themselves short-term, and jeopardizes the long-term health of the business. The Lexicon Board holds approximately 38% of the outstanding shares of the Bank. We haven't paid a dividend, and nobody on the Board that is not a part of management draws any salary, although all Board members own shares and/or options in the Bank. The Board only sees a return if the Bank is profitable long term. To the best of my knowledge, nobody on the Board has sold a share of stock since we opened (unless it was transferred to family, which I might not be aware of), and no Board member, including myself, has moved any money out of the Bank as a result of recent market developments.

For those of you that are customers of the Bank, and have questions, please don't hesitate to reach out directly to our President and CEO, Stacy Watkins at 702-780-7702 or our CFO, Paul Yang at 702-780-7704. For those that want to explore ways to increase your insured balances at the Bank, please reach out as well, we have solutions for you.

For the people that prefer to see classic bank ratios so you can compare one bank to another, our CFO maintains those ratios and would be happy to provide those to you so that you can better compare Lexicon to other banks.

Regards,



**Russell Rosenblum**  
Chairman  
Lexicon Bank

[Link to Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC]  
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm>

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## ABOUT LEXICON BANK

Founded in 2019, Lexicon Bank is Nevada's community-focused banking partner. Lexicon Bank provides private, personal, comprehensive banking services to business and individual banking clients, with an emphasis on creating and nurturing long-term relationships. By providing personalized services to all clients, Lexicon Bank helps to foster Southern Nevada's economy and community—ultimately helping to grow and develop the region's local businesses. The Bank is redefining banking as it should be in Southern Nevada by creating a concierge-like experience for businesses, regardless of size. Lexicon Bank is located in Tivoli Village at 330 S. Rampart Blvd., Suite 150. The Bank is open from 9 a.m. to 5 p.m. Monday through Friday and 10 a.m. to 2 p.m. on Saturdays. Clients can contact us by phone at (702) 780-7700 or online at [lexiconbank.com](http://lexiconbank.com). Follow us on Facebook, Instagram, LinkedIn, and Twitter [@lexiconbank](https://twitter.com/lexiconbank). Lexicon Bank is a member of the FDIC.

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Need help? Email [customerservice@lexiconbank.com](mailto:customerservice@lexiconbank.com) or call (702) 780-7700.

MONDAY – FRIDAY: 9 AM - 5 PM PST | SATURDAY: 10 AM - 2 PM PST

24/7 assistance: 800.500.1044

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