

Banking Conditions

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A magnifying glass is positioned over a bar chart. The chart has a y-axis with values 50000, 60000, 70000, 80000, 90000, and 100000. The x-axis shows months from Jan to Dec. The legend includes Sales 1, Sales 3, Sales 4, and Sales 5. The text 'BANKING & SUPERVISION FORUM 2023' is prominently displayed in large, bold, black letters, with 'FEDERAL RESERVE BANK OF KANSAS CITY' in smaller text below it.

**BANKING &
SUPERVISION FORUM 2023**
FEDERAL RESERVE BANK OF KANSAS CITY

Technical Notes:

This presentation provides metrics for commercial banks sourced from Consolidated Reports of Condition & Income (call reports), S&P Global Market Intelligence, Federal Reserve Economic Data (FRED), FRB H.8 and H.4.1 releases, Haver, and the FRB Senior Loan Officer Opinion Survey on Bank Lending Practices. Preliminary 1Q 2023 call report information is provided for Tenth District commercial banks and is subject to change.

Recap: 4Q 2022 Conditions

Historic shifts in balance sheets

- Loan growth and core deposit runoff
- Funded by liquid assets and other borrowings (primarily FHLB, brokered, and uninsured CDs)

Improved margins offset by noninterest items

- Significant rebound in margins, benefitting from rising rates and loan growth
- Decreased noninterest income, greater provisioning

Credit quality remains sound

- Low past due and nonaccruals
- Consumer debt growing; impact of increasing rates on variable rate loans

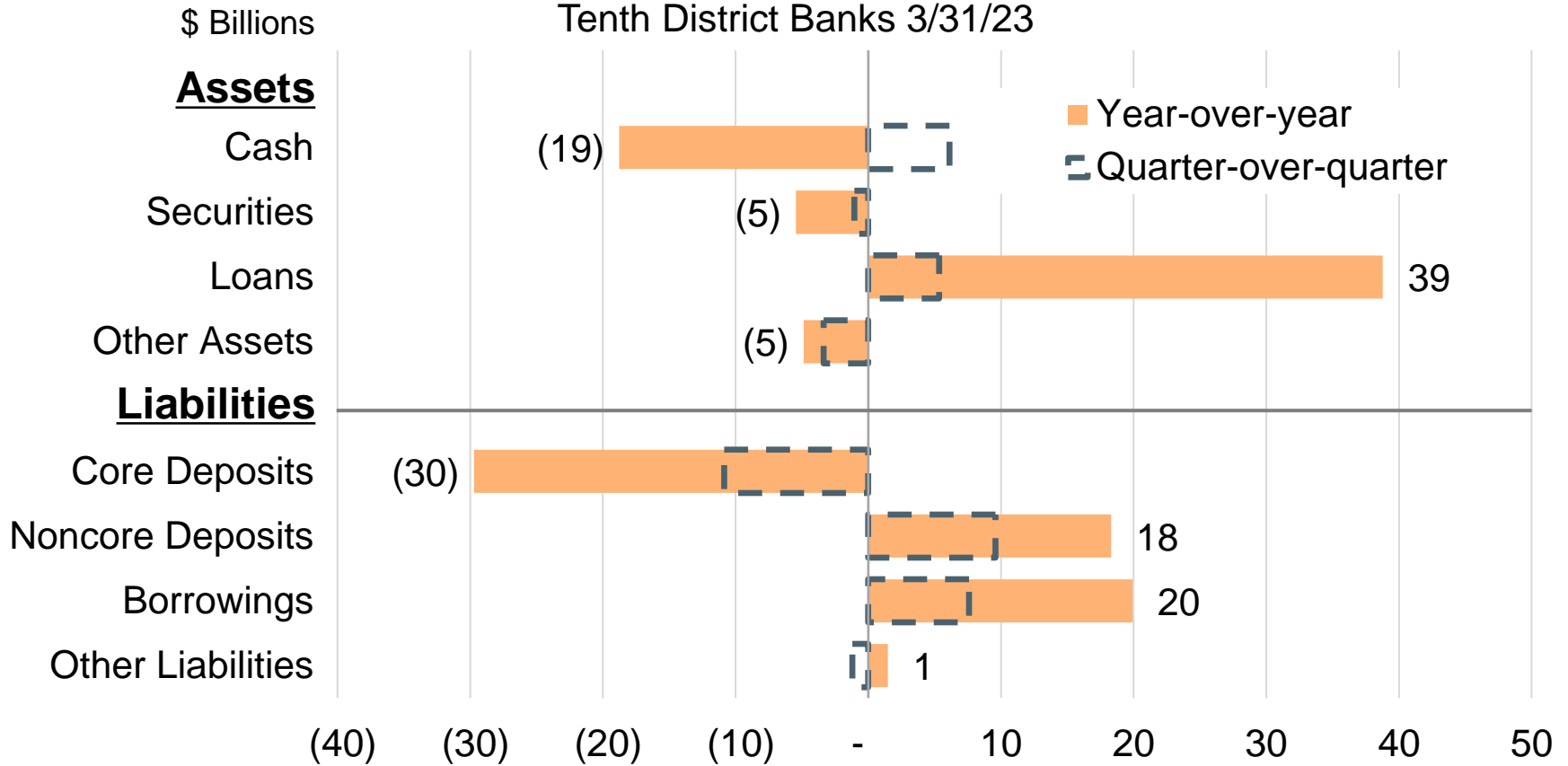
Capital growth outpaced by increased risk

- Large unrealized losses in securities hit tangible equity
- Risk-weighted assets* grew 17% vs total asset growth of only 2%

*Among Tenth District non-CBLR filers

Historic Shifts In Balance Sheets Impact Liquidity, Margins

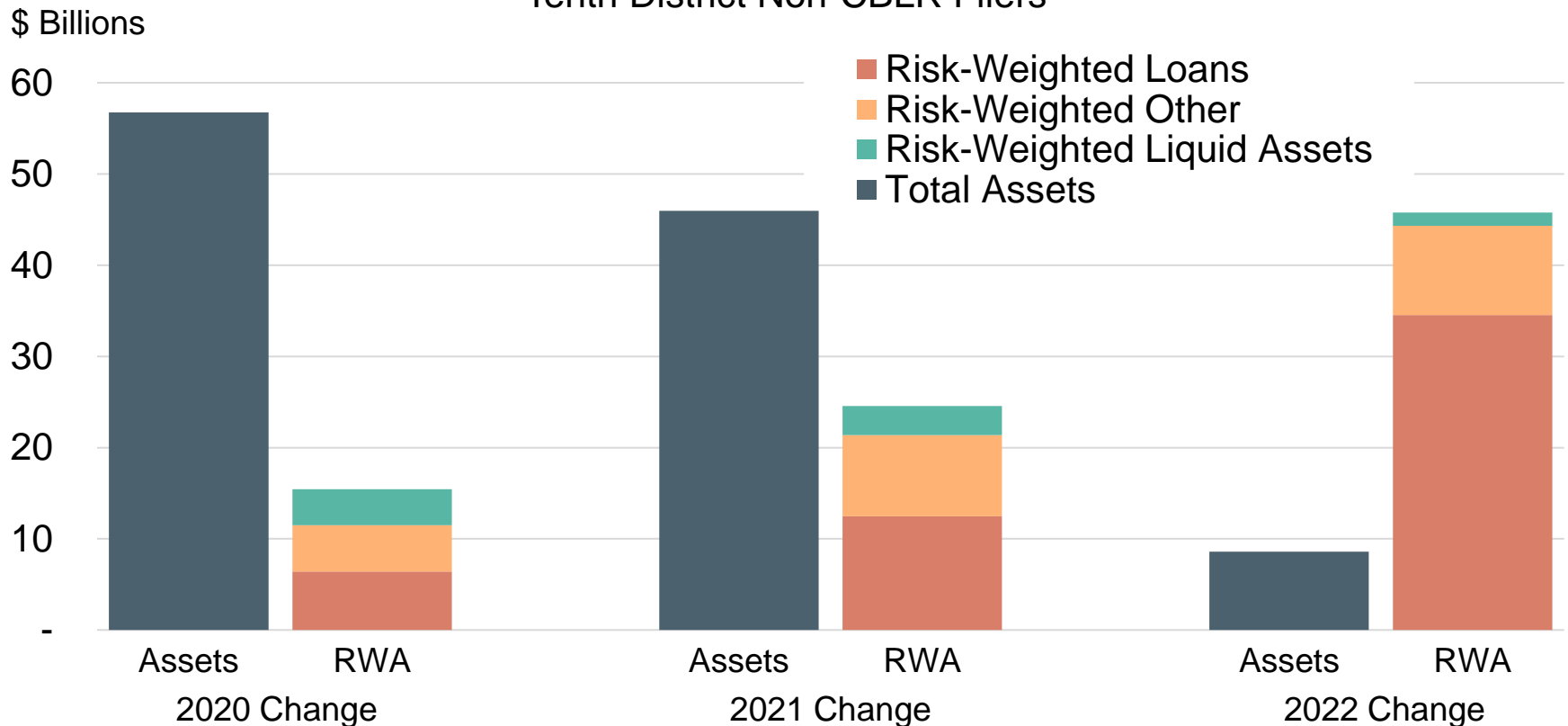
Balance Sheet Shifts
Tenth District Banks 3/31/23



Source: Reports of Condition and Income, merger-adjusted

Increasing Risk Profiles Impact Capital

Change in Risk-Weighted Assets
Tenth District Non-CBLR Filers



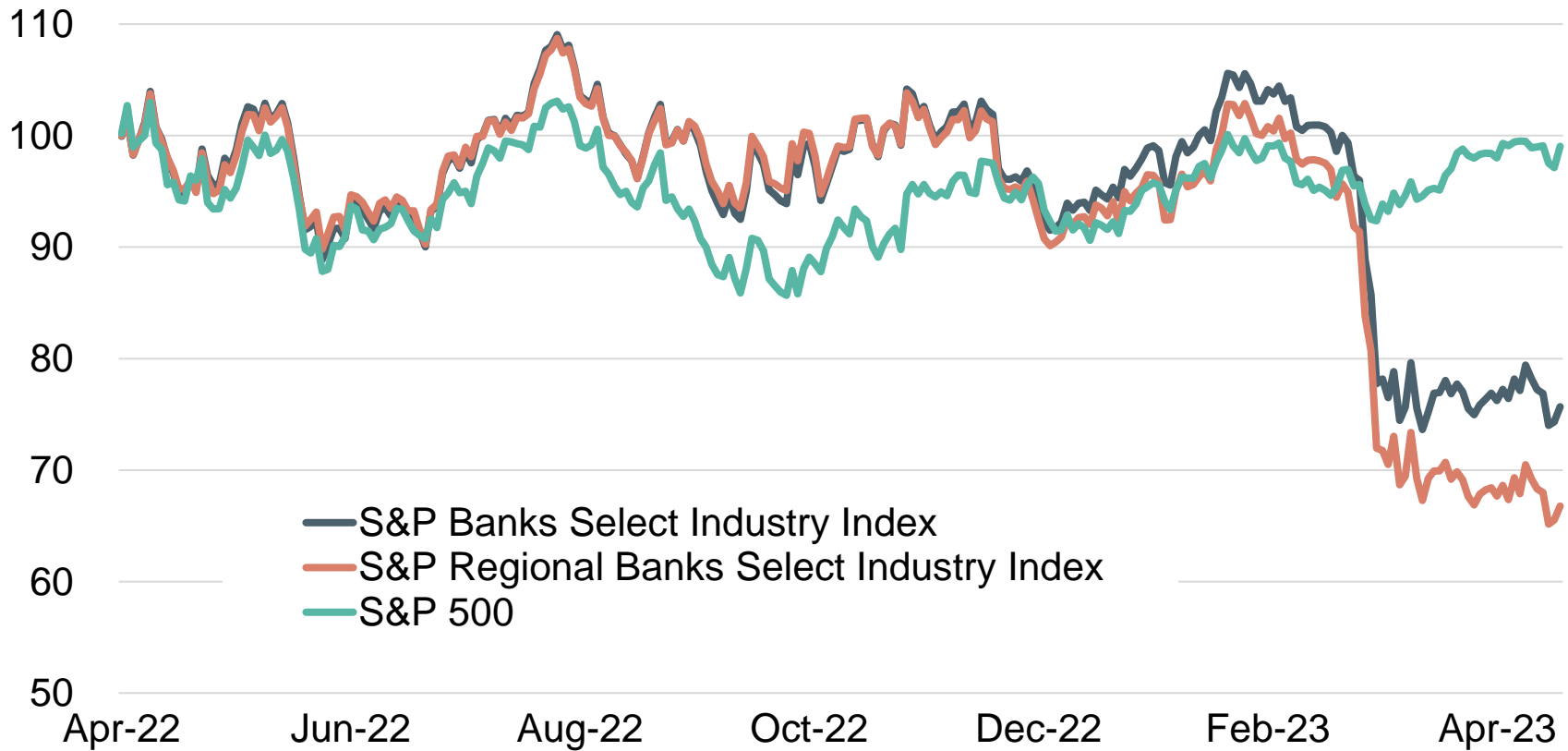
Source: Reports of Condition and Income

Renewed Look: March 2023

- Reputational risk
- Liquidity, interest rate risk
 - Deposit composition, behavior
 - Unrealized losses
 - Other borrowing options
- Capital considerations
- Credit conditions, expectations

Reputational Risk Elevated

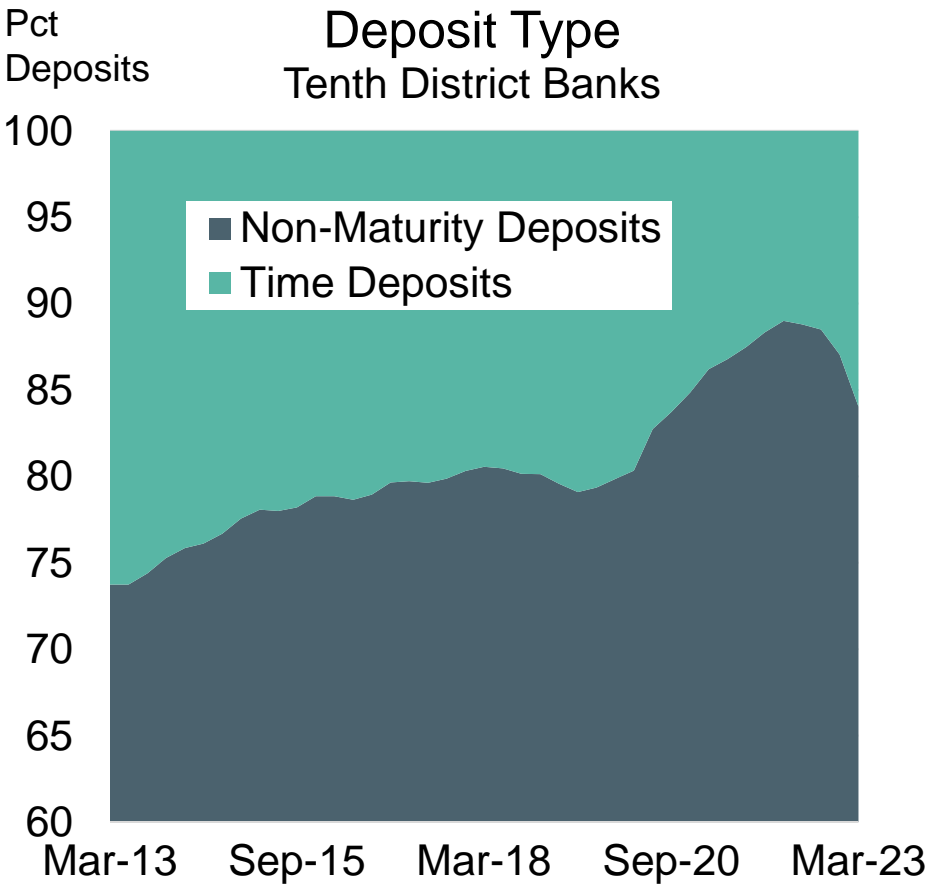
Stock Prices S&P 500 vs Bank Index
Change from April 2022



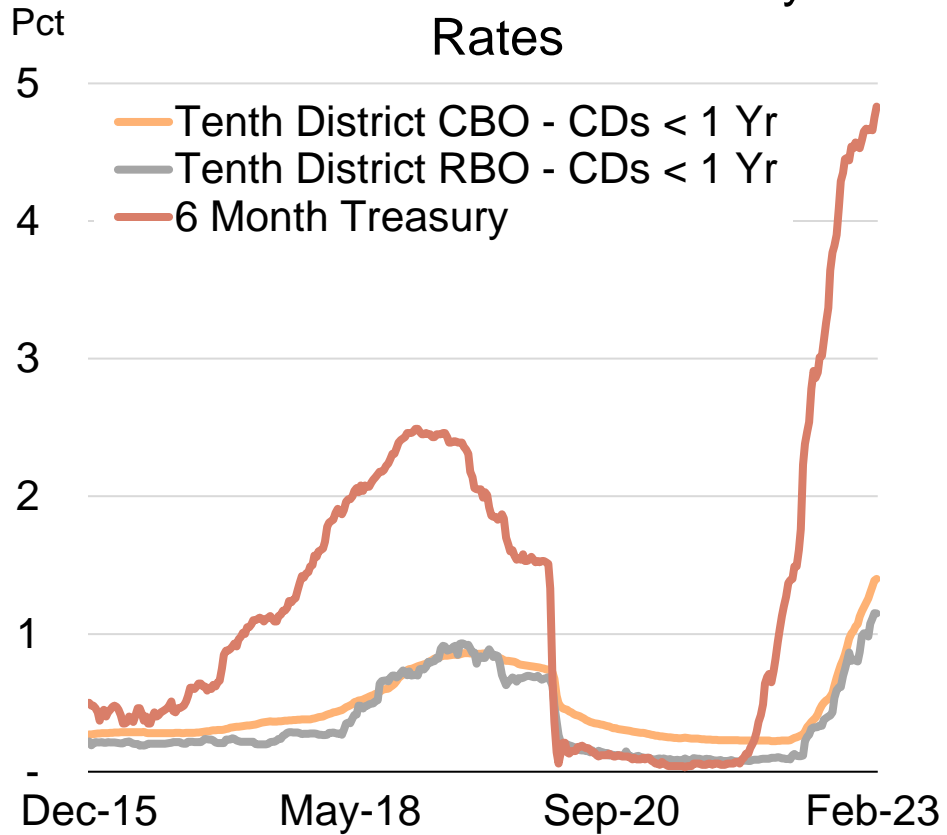
Source: S&P Global Market Intelligence

Deposit Composition, Characteristics Shifting

Deposit Type
Tenth District Banks



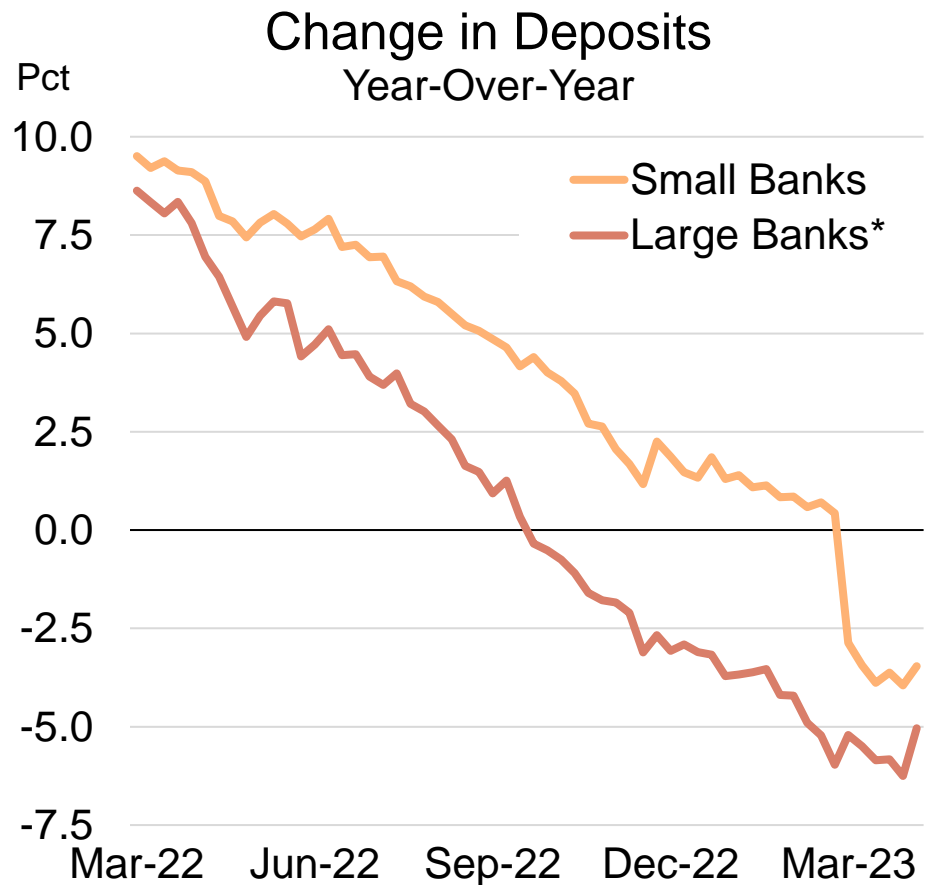
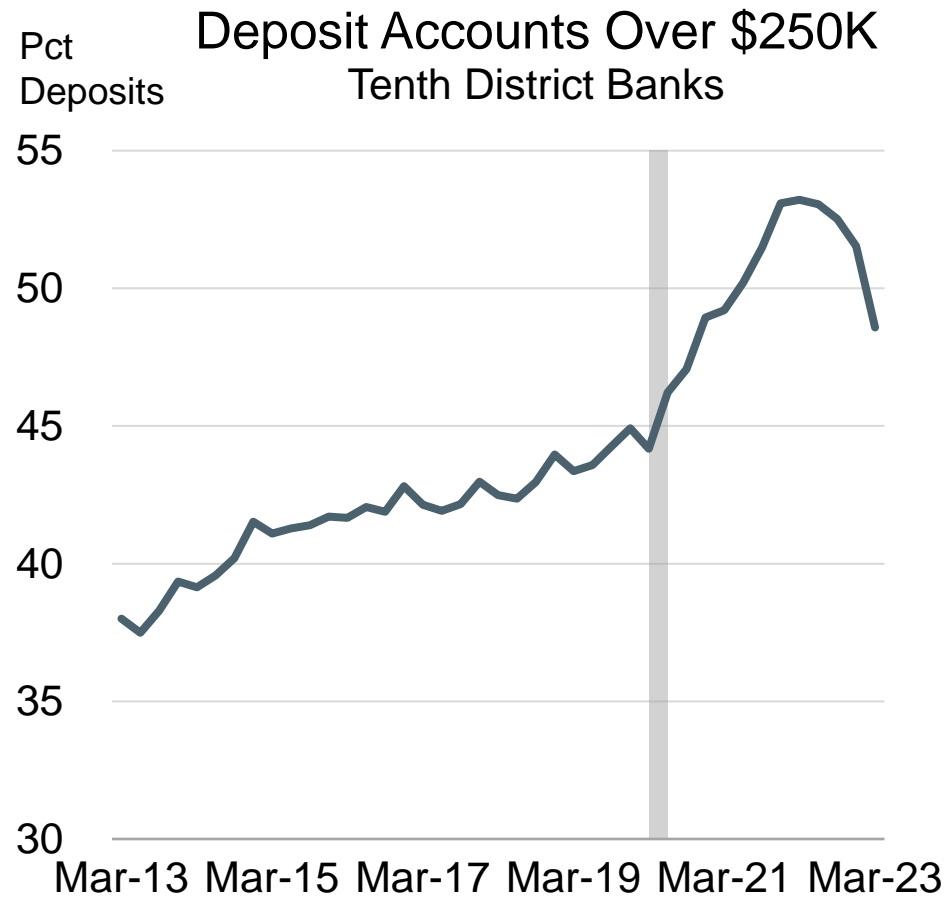
Short-Term CD vs Treasury Rates



Sources: Reports of Condition and Income, S&P Global Market Intelligence, FRED



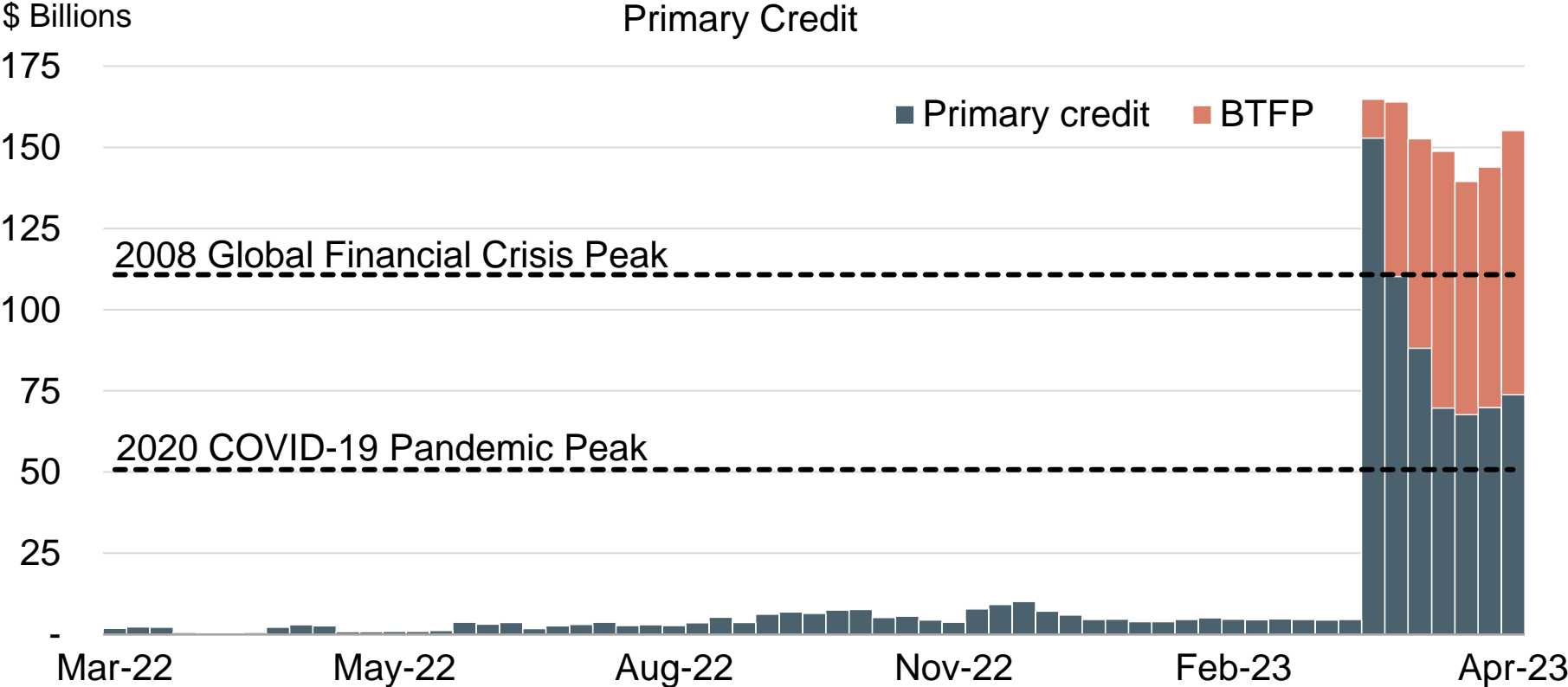
Deposit Composition, Characteristics Shifting



*Large vs small domestically chartered commercial banks as used in FRB H.8 release data
Source: Reports of Condition and Income, H.8 Data

Expansion of Other Borrowing Options

Discount Window Borrowings
Primary Credit

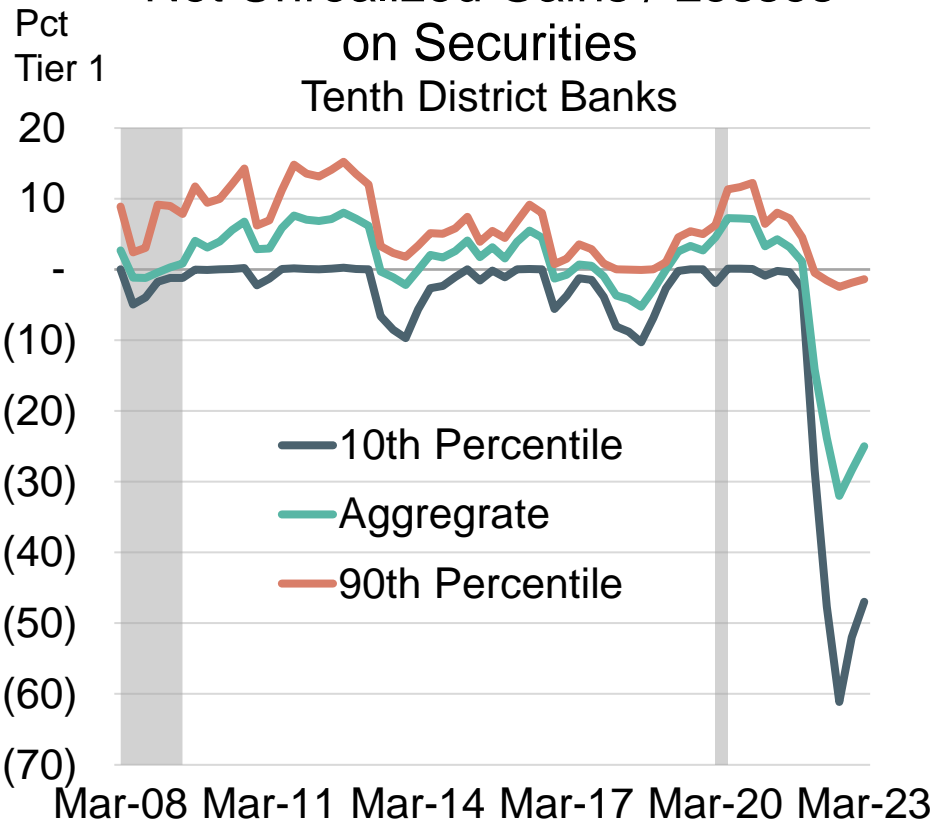


Source: FRB H.4.1 Release

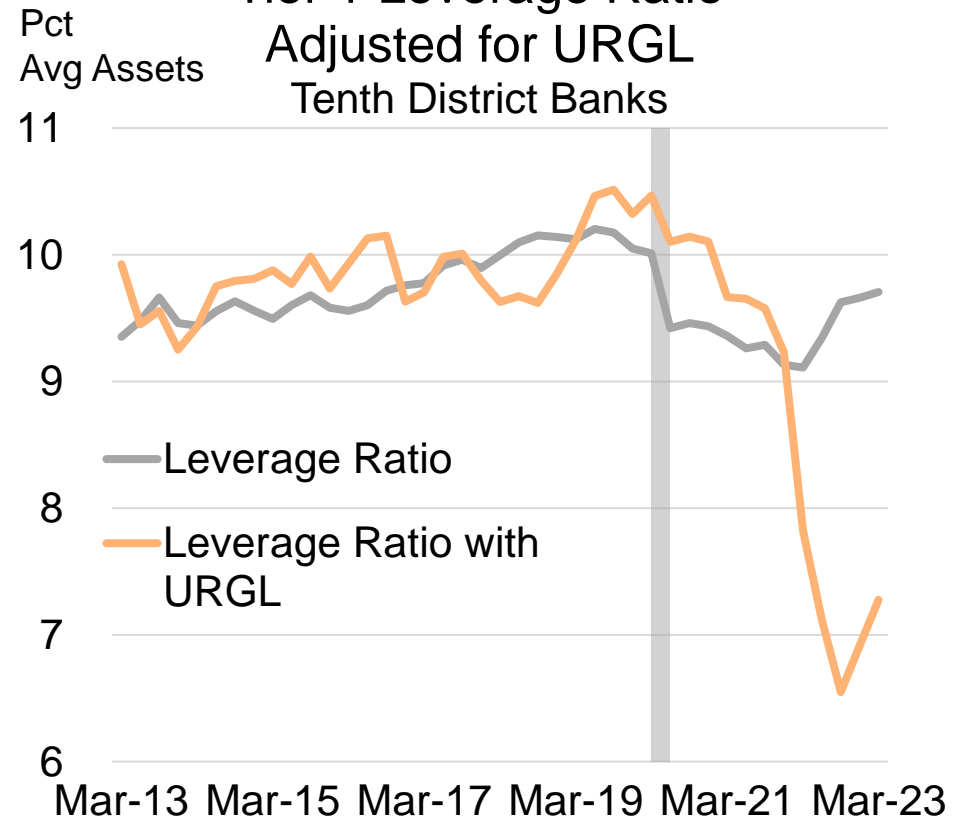


Securities Impeded By Unrealized Losses

Net Unrealized Gains / Losses on Securities Tenth District Banks



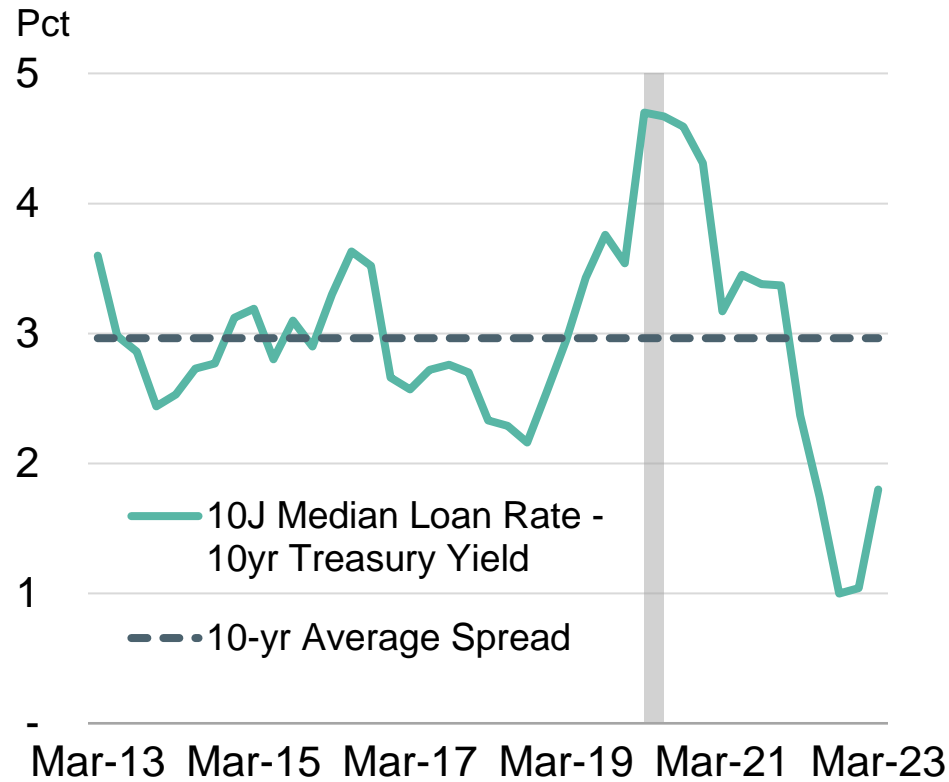
Tier 1 Leverage Ratio Adjusted for URGL Tenth District Banks



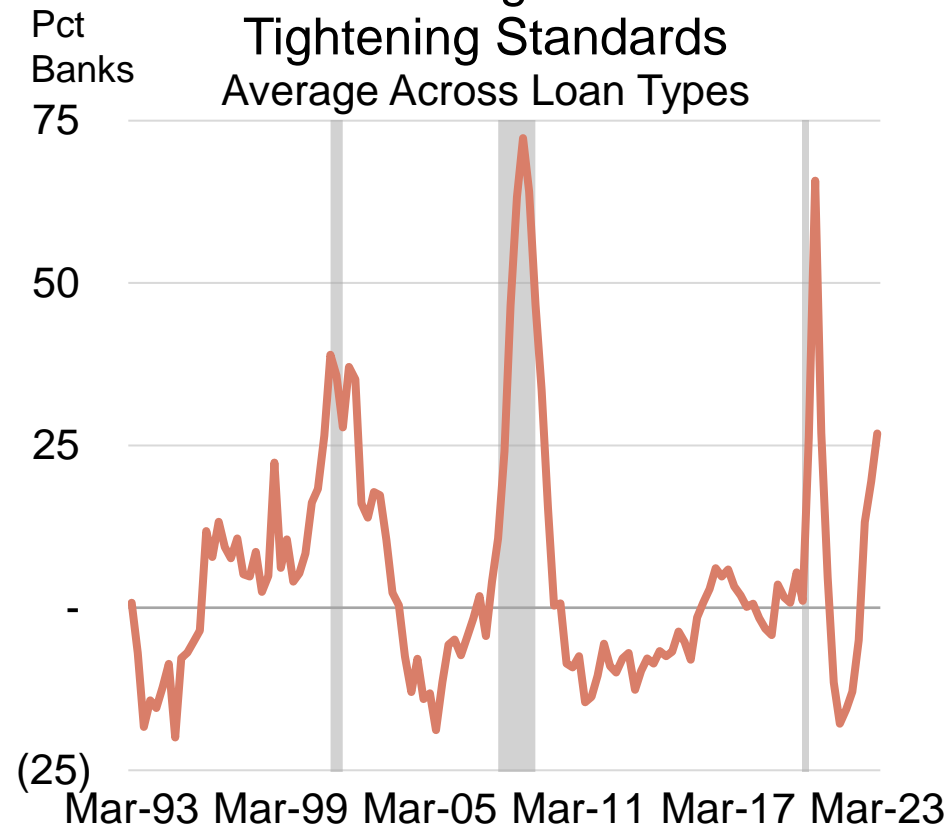
Source: Reports of Condition and Income

Sound Credit Conditions But Expectations of Future Stress

Other RE* Loan Rate Spread
Tenth District Banks



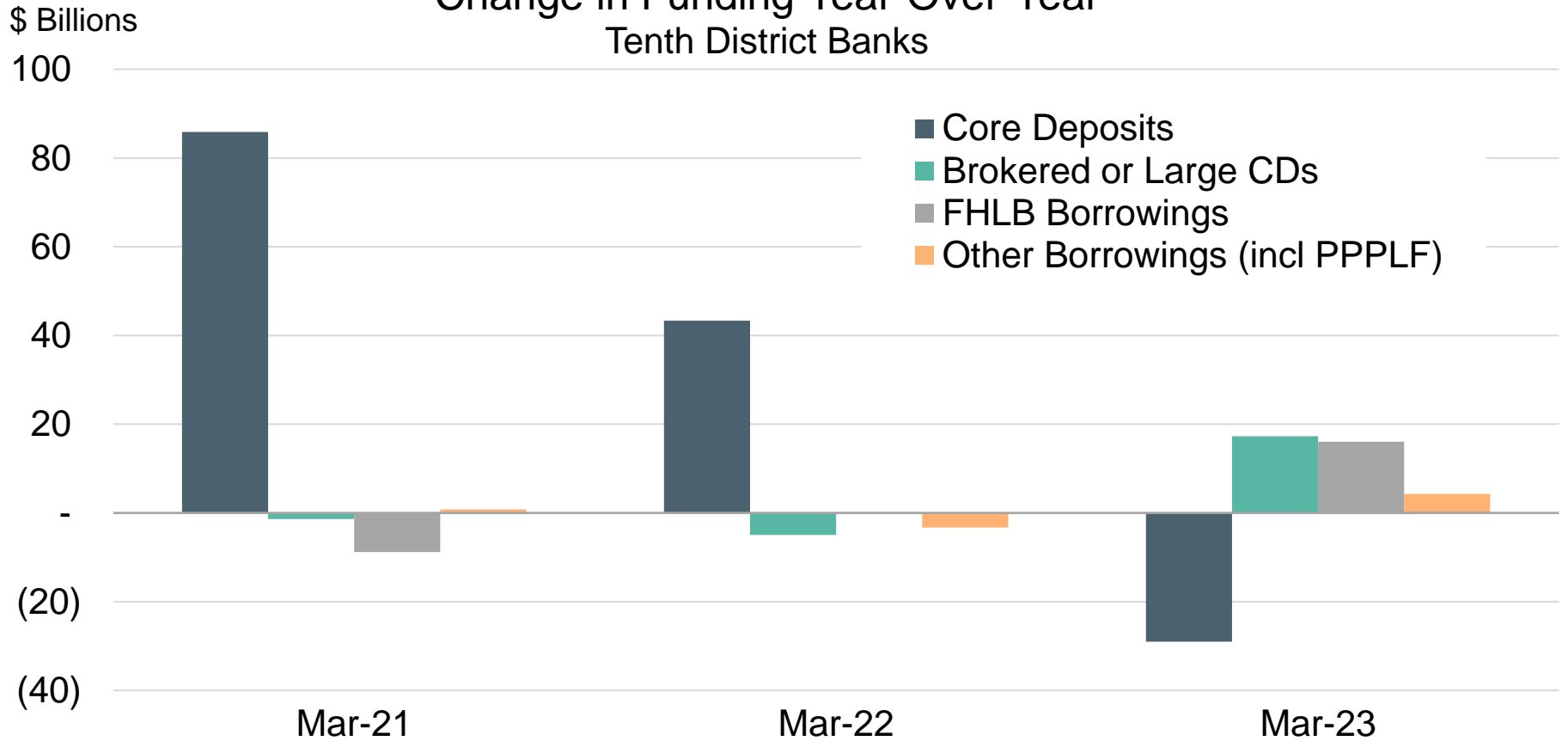
Net Percentage of Banks
Tightening Standards
Average Across Loan Types



*Loans secured by real estate (RE), excluding 1-4 family residential properties
Sources: Reports of Condition and Income, Haver, Senior Loan Officer Opinion Survey on Bank Lending Practices

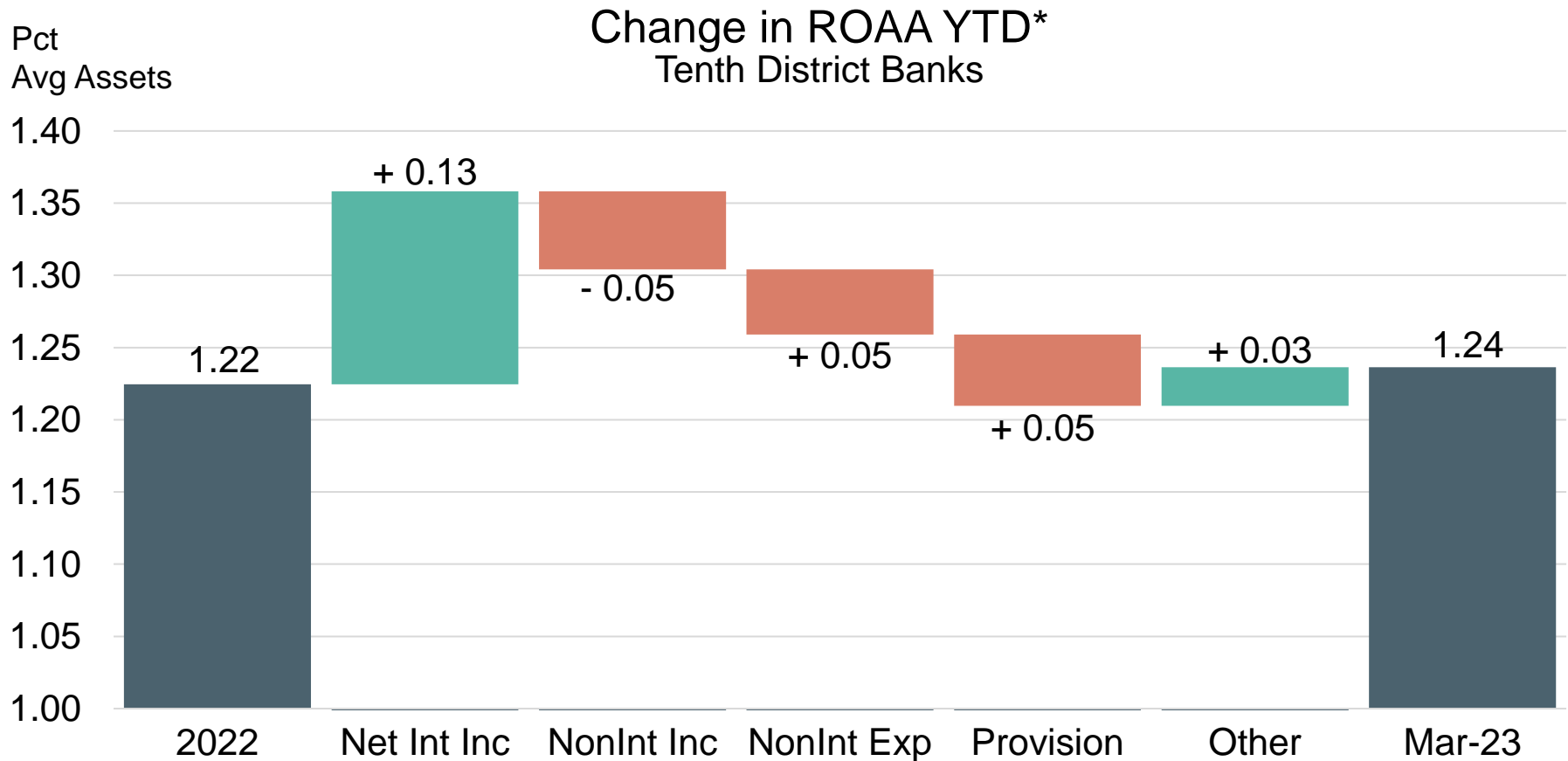
Other Borrowings Funding Deposit Runoff

Change in Funding Year-Over-Year
Tenth District Banks



Source: Reports of Condition and Income, merger-adjusted

Margins Benefit, Though Offset By Noninterest Items



* An increase in expense items is shown as a negative impact to earnings, while a decrease is shown as a benefit
Source: Reports of Condition and Income

Interest Expense Increases Outpacing Interest Income in 2023

