Community Banking Bulletin

Highlight: Earnings remain elevated despite slight decline in 2022

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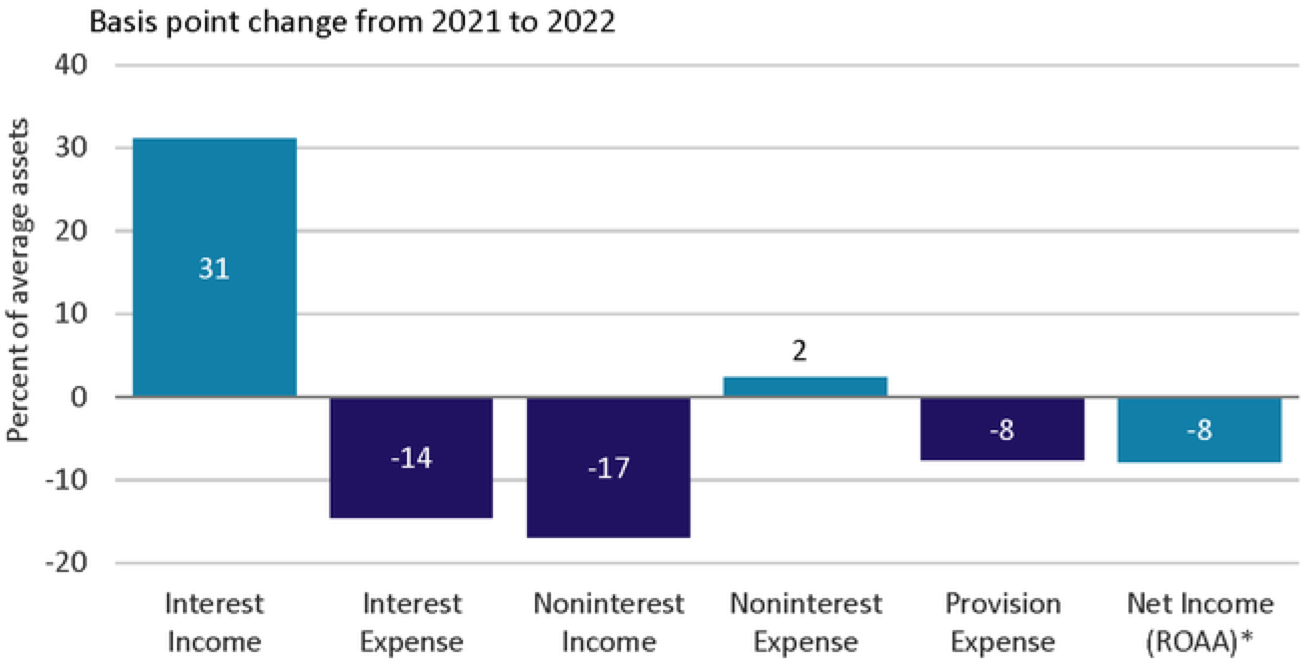
Earnings fell slightly at community banking organizations in 2022 compared to the year prior, though remain above pre-pandemic levels.

Earnings Component Change Impact on Return on Average Assets (ROAA)



* The change in net income as a percentage of average assets includes other items impacting earnings, including taxes, gain/loss from the sale of loans, etc.Note: Increases in expense items shown as negative values (reduction) to ROAA, while decreases in expenses shown as positive value (benefit) to ROAA.Source: Reports of Condition and Income.

- Community banking organization[1] (CBO) ROAA remains above pre-pandemic levels but declined slightly, by 8 basis points (bps), from 2021 to 2022. While earnings benefitted from improvements in net interest income (interest income minus interest expense), this was offset by a decline in noninterest income and an increase in provision expense.
- Net interest income at CBOs increased by 17 bps year-over-year, as increases in interest income continue to outpace increases in interest expense. Interest income was boosted by improved asset yields as a result of strong loan growth and rising interest rates, while funding costs have lagged the quick pace of rate increases.

- A decline in noninterest income was the largest contributor to lower earnings in 2022, declining 17 bps year-over-year. The decline in noninterest income was mainly driven by decreased gains on the sale of loans and income from deposit service charges. • Provision expense increased in 2022, approaching a more normal, pre-pandemic level. Provision expense had remained low for numerous quarters but has increased in order to keep pace with elevated loan growth.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org

Endnotes

[1] Community banking organizations are defined as having less than $10 billion in total assets.
