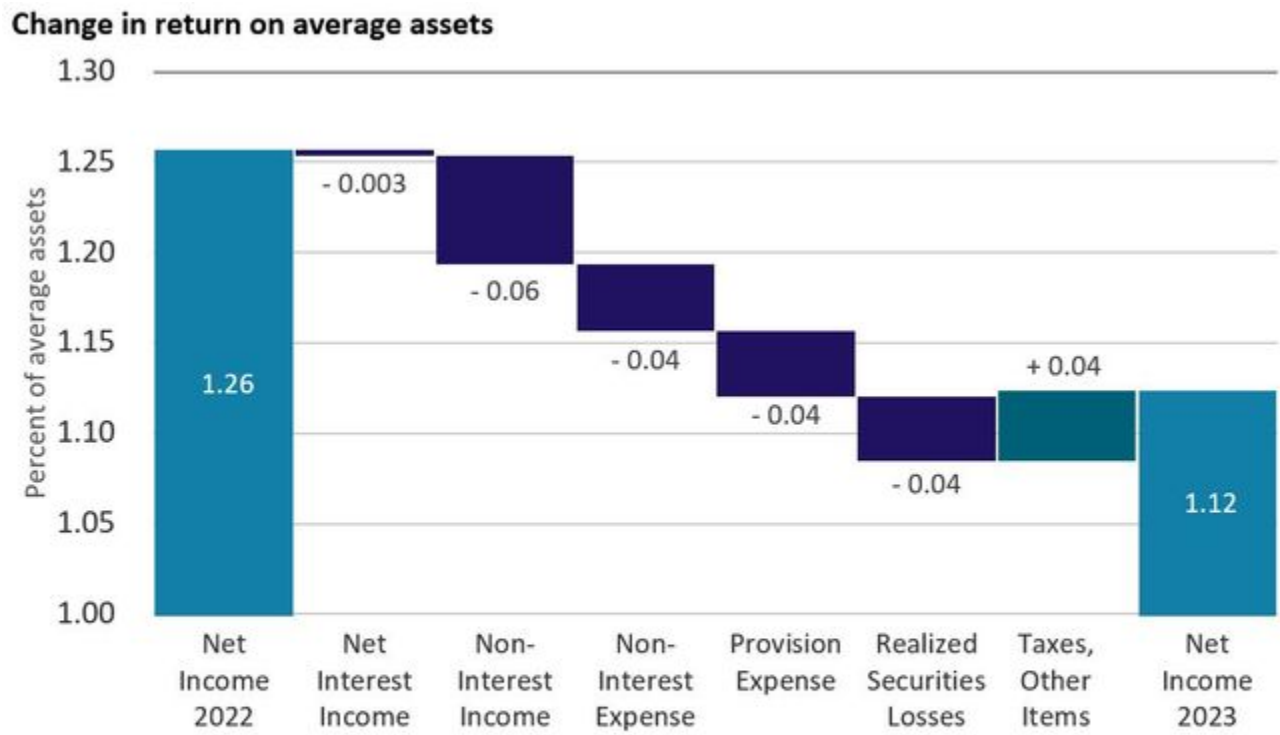




## Highlight: Increasing pressure on bank earnings performance

March 25, 2024

Bank earnings have been pressured by increased interest expenses, overhead costs, provisions, and realized losses on securities, as well as reduced non-interest income.



Source: Reports of Condition and Income

Note: The impact of expense items is shown as an inverse to its direction of change. An increase in expense items is shown as a negative impact to earnings, and a decrease in expense items is shown as a positive impact to earnings.

- Earnings performance across community banking organizations<sup>[1]</sup> (CBOs) declined in 2023. Return on average assets (ROAA) decreased from 1.26 percent at year-end 2022 to 1.12 percent at year-end 2023, as illustrated in the chart above, which shows the impact of income and expense items on net income as a percent of average assets.
- Net interest income as a percent of average assets remains below pre-pandemic averages despite increasing interest income on earning assets. Since early 2023, rising funding costs have outpaced gains in yields on earning assets, resulting in compressing net interest income. CBOs have seen notably smaller increases in yields on earning assets compared to larger banks.

- Noninterest income dropped to a multi-decade low of 0.88 percent of average assets as a result of continued pressure on many revenue sources, particularly gains on sale of loans and servicing fee income. Noninterest expenses have also hindered earnings performance, impacted in part by large FDIC assessment fees in the fourth quarter. In addition, provision expenses increased to near or above pre-pandemic levels, consistent with the increasing trend in charge-offs and expectations of potential credit stress. Finally, realized losses on securities increased during the year as more banks sold investments at losses, further inhibiting net income.

Questions or comments? Please contact [KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org](mailto:KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org)

## Endnotes

<sup>[1]</sup> Community banking organizations are defined as having \$10 billion or less in total assets

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