FEDERAL RESERVE BANK PHILADELPHIA

Banking Brief

RESEARCH DEPARTMENT

First Quarter 2023 Highlights

Summary Table of Bank Structure and Conditions

First Quarter 2023	Small Banks						Large Banks		
	U.S.			Tristate			U.S.		
	$ Billion	% Change From		$ Billion	% Change From		$ Billion	% Change From	
	23Q1	22Q4	22Q1	23Q1	22Q4	22Q1	23Q1	22Q4	22Q1
Total Assets	3,120.1	-5.14	5.07	199.7	4.55	4.12	18,374.6	3.11	-1.20
Total Loans	2,095.9	-5.58	15.59	145.3	4.19	11.56	8,828.3	0.60	7.43
C&I	311.0	-3.97	8.49	17.6	-19.92	-9.25	2,080.8	-0.67	6.01
Real Estate	1,577.9	-4.84	16.93	114.6	7.34	13.92	3,690.9	5.63	7.30
Consumer	98.1	12.82	32.21	8.0	19.94	28.97	1,363.9	-8.33	13.15
Total Deposits	2,619.3	-6.53	1.67	162.8	3.19	-0.06	14,331.0	-10.33	-6.69

Ratios (in %)	23Q1	22Q4	22Q1	23Q1	22Q4	22Q1	23Q1	22Q4	22Q1
Net Income/Avg. Assets (ROA)	1.21	1.21	1.23	1.21	1.23	1.30	1.17	1.04	1.01
Net Interest Inc./Avg. Assets (NIM)	3.38	3.28	3.01	3.35	3.30	3.06	2.61	2.42	1.97
Noninterest Inc./Avg. Assets	0.79	0.84	0.99	0.85	0.91	1.11	1.25	1.19	1.23
Noninterest Exp./Avg. Assets	2.50	2.47	2.47	2.54	2.52	2.49	2.13	2.10	2.03
Loans/Deposits	80.02	79.82	70.39	89.27	89.05	79.97	61.60	59.86	53.50
Equity/Assets	9.53	9.32	9.69	10.09	9.88	10.12	9.68	9.50	9.36
Nonperforming Loans/Total Loans	0.50	0.56	0.57	1.29	1.99	0.93	0.75	0.71	0.80

Source: Unless otherwise noted, all data are from Federal Financial Institutions Examination Council (FFIEC) Call Reports.
Notes: The data are adjusted for mergers. Quarterly percentage changes are compound annualized rates except where noted. Ratios are aggregates; that is, the numerators and denominators are summed across all banks in the group, then divided. *Large U.S. banks* are defined as banking organizations such as bank holding companies that are ranked in the top 100 in banking assets as of December 31, 2022, including assets of only their commercial bank subsidiaries. Large banks typically operate in multiple regions. The number of large banks may exceed 100 if during the calendar year some banking organizations' assets grow larger than those of the 100th largest bank at the beginning of the year. A *banking organization* is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and special-purpose banks, such as credit card banks, are excluded. *Small tristate banks* are defined as those based in the tristate area that were not in the top 100 in assets as of December 31, 2022. The *tristate area* consists of Pennsylvania, New Jersey, and Delaware. *Small U.S. banks* are defined as those based outside the tristate area that were not in the top 100 in assets as of December 31, 2022, including assets of only their commercial bank subsidiaries. *U.S.* excludes tristate banks. The sample includes 104 small tristate banks, 3,638 small U.S. banks, and 99 large U.S. banks.

Recent Trends in Tristate and U.S. Banking Markets

The first quarter was a challenging time for the banking industry, including three large bank failures at the end of the quarter totaling nearly $450 million in assets. However, the failures were resolved through large bank purchases of the failed banks' assets and liabilities, so the aggregate data were largely unaffected. Other than that, profitability increased at large banks but was flat at small banks. Net interest margins were strong, driven by strong real estate (RE) loan growth and deposit rates lagging rising loan rates, but falling securities prices reduced noninterest income and hampered profitability at small banks. Whether strong loan growth can continue is questionable, as commercial real estate (CRE) loans, which many small banks depend on, appear to be softening. Overall, loan quality remained good, but local banks have experienced quality problems in the last year. This was mainly due to the declining quality of commercial and industrial (C&I) loans; the quality of CRE loans declined at large banks as well. The decline in the quality of some loans was not reflected in net charge-offs. As a percentage of loan-loss provisions, charge-offs decreased.

CHART 1

Profitability Up at Large Banks, Flat at Small Banks

Percent

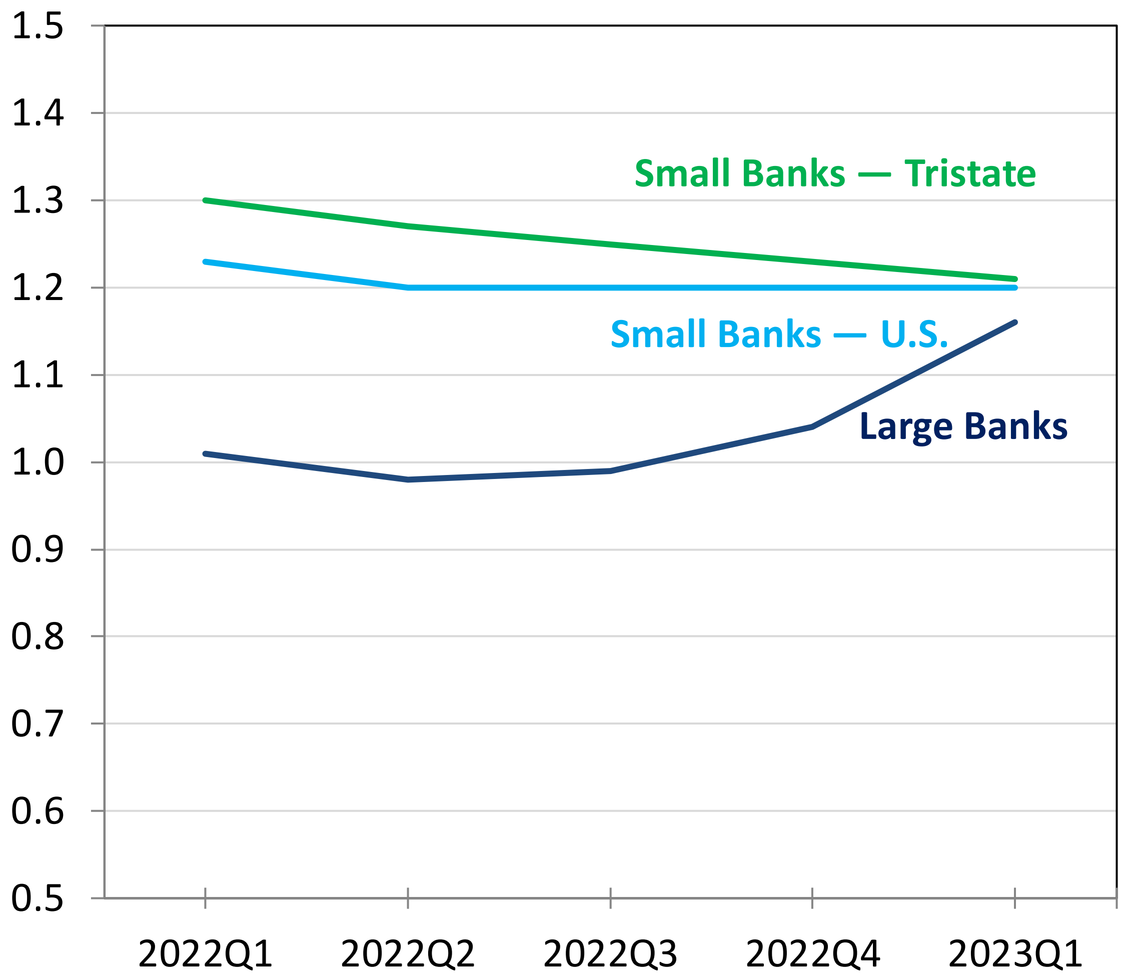


CHART 2

Net Interest Margins Up, Increasing Profitability

Percent

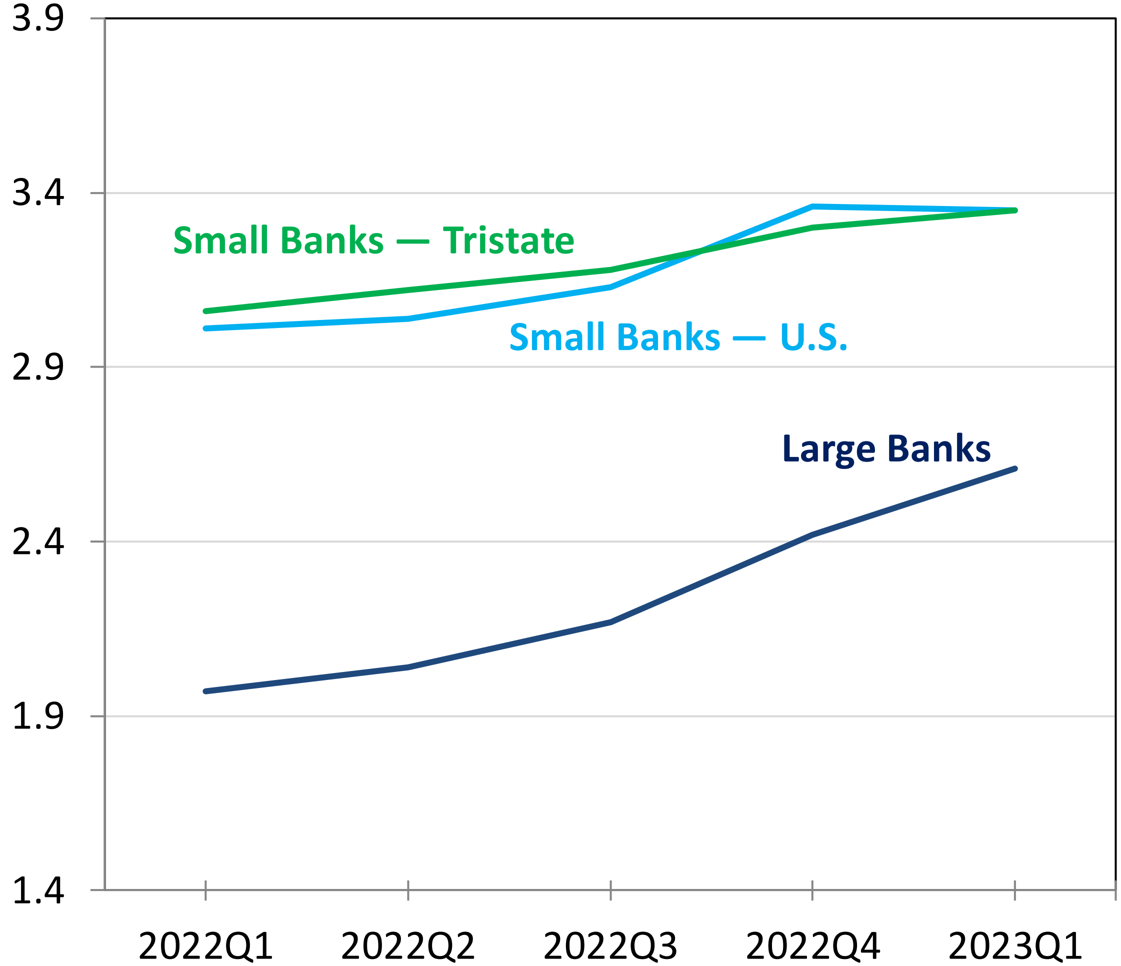


CHART 3

Loan Growth Slowed Somewhat but Remained Strong

Percent

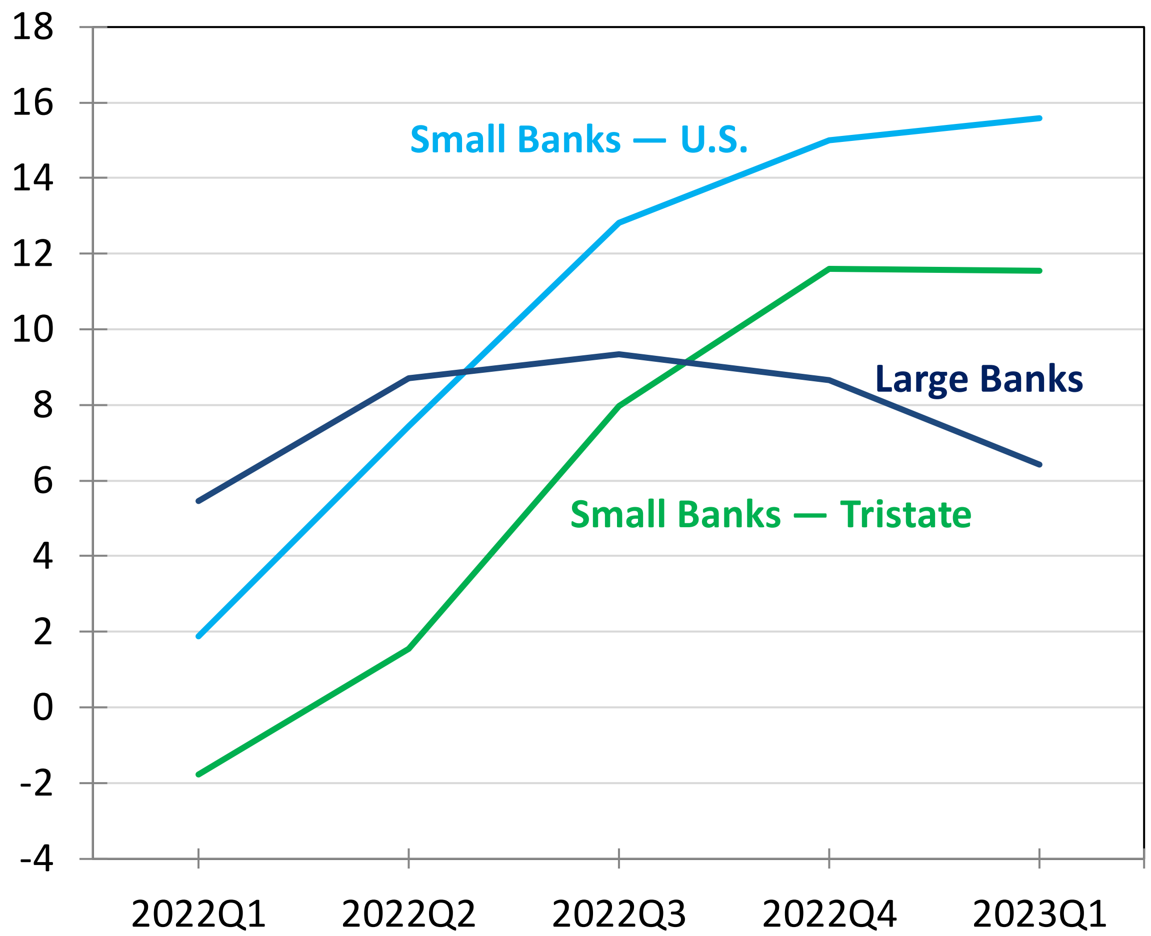


CHART 4

Commercial Real Estate Loans Slowed, but Overall Growth Remains Strong

Percent

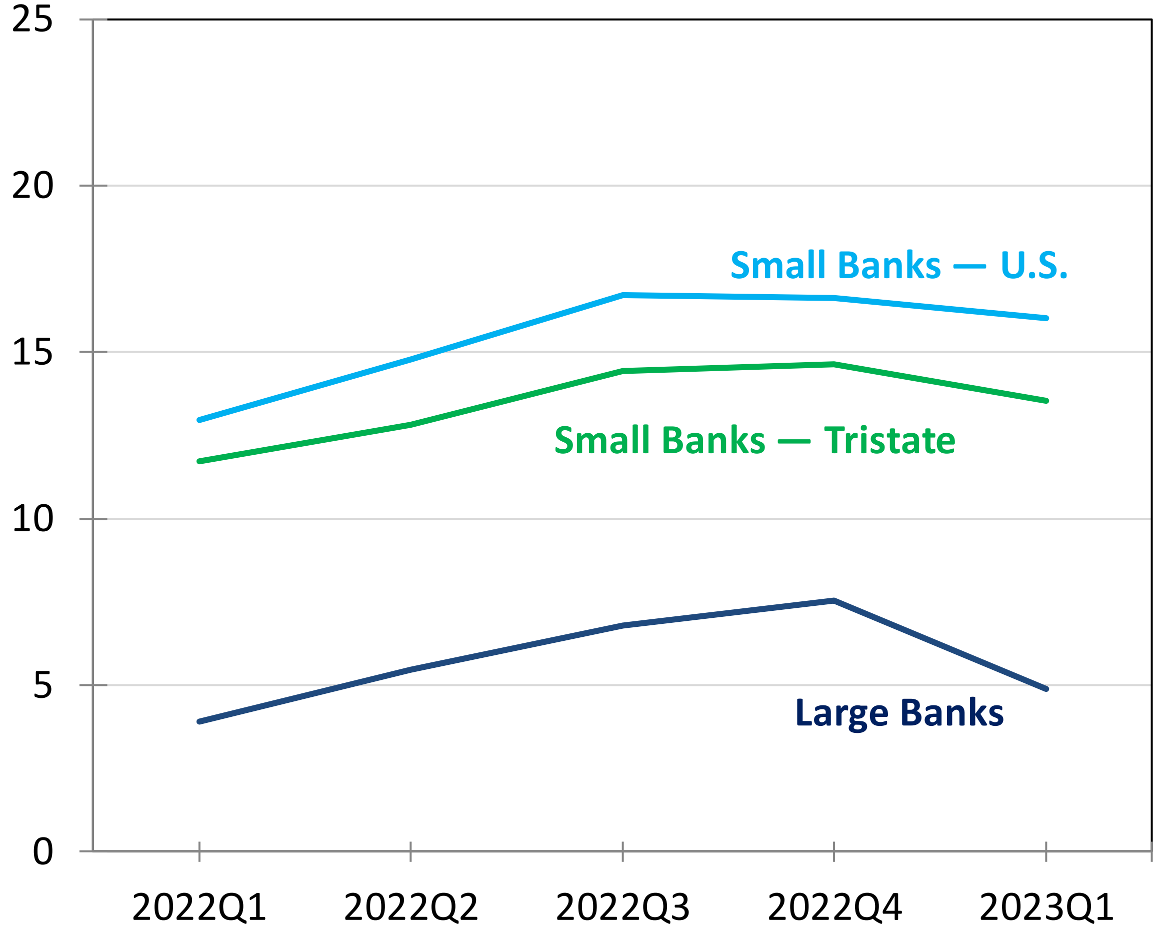


CHART 5

Loan Quality Was Basically Unchanged, Except Locally

Percent

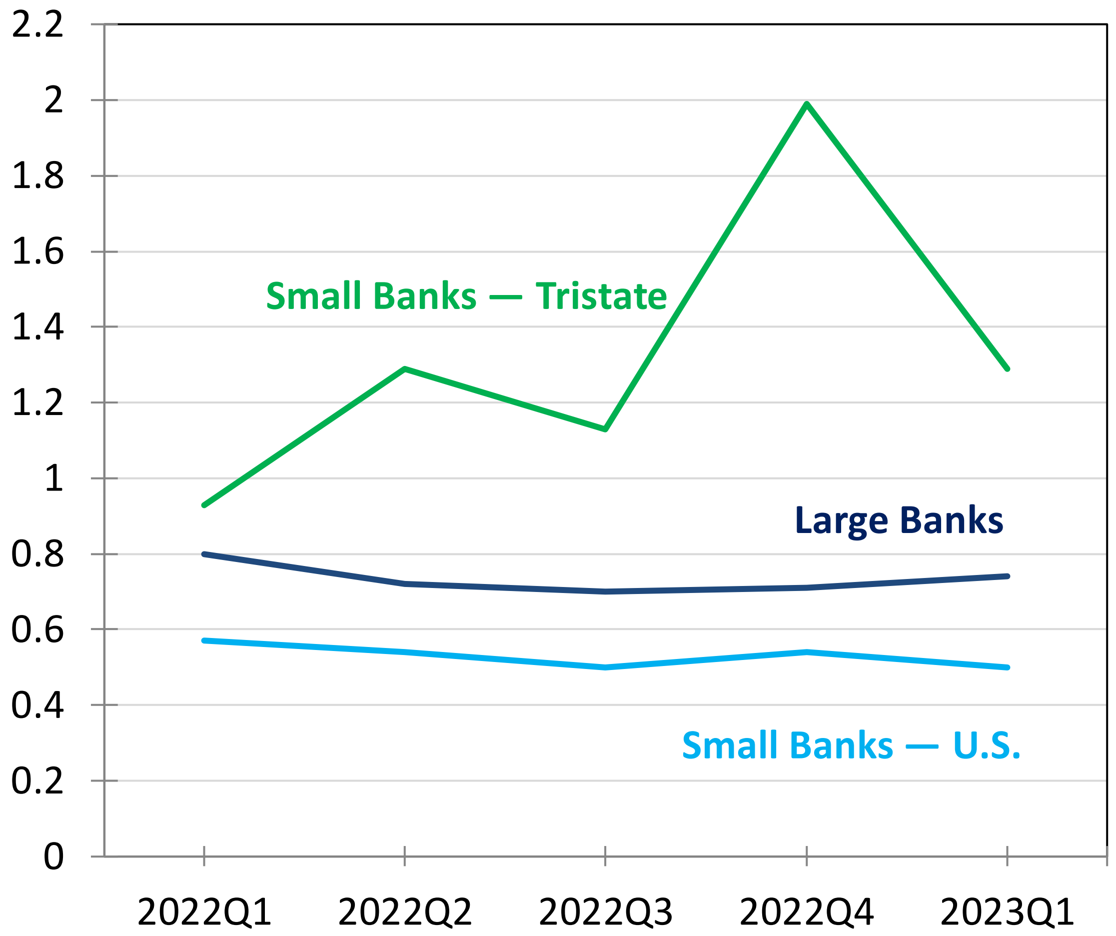


CHART 6

Commercial and Industrial Loans Are Driving the Increase in Bad Loans at Local Banks

Percent

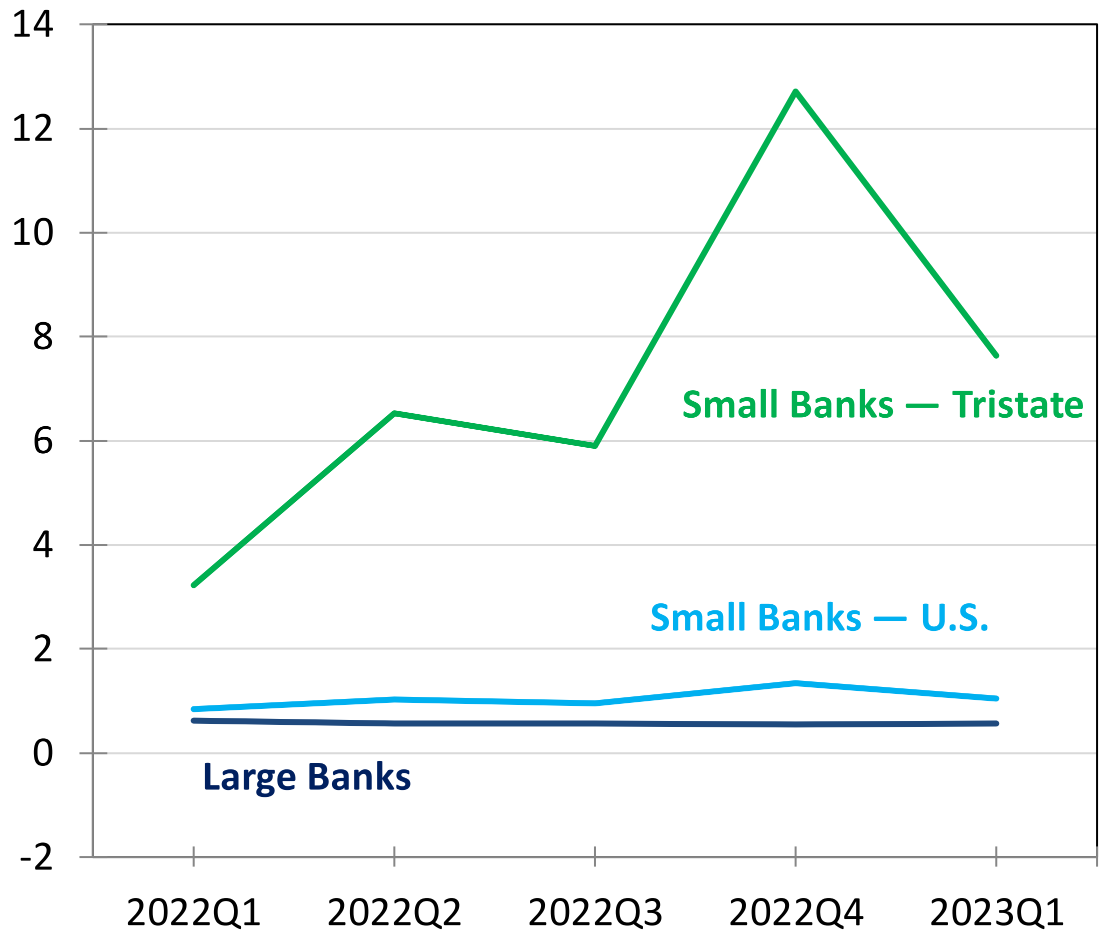


CHART 7

Commercial Real Estate Loans Deteriorated at Large Banks

Percent

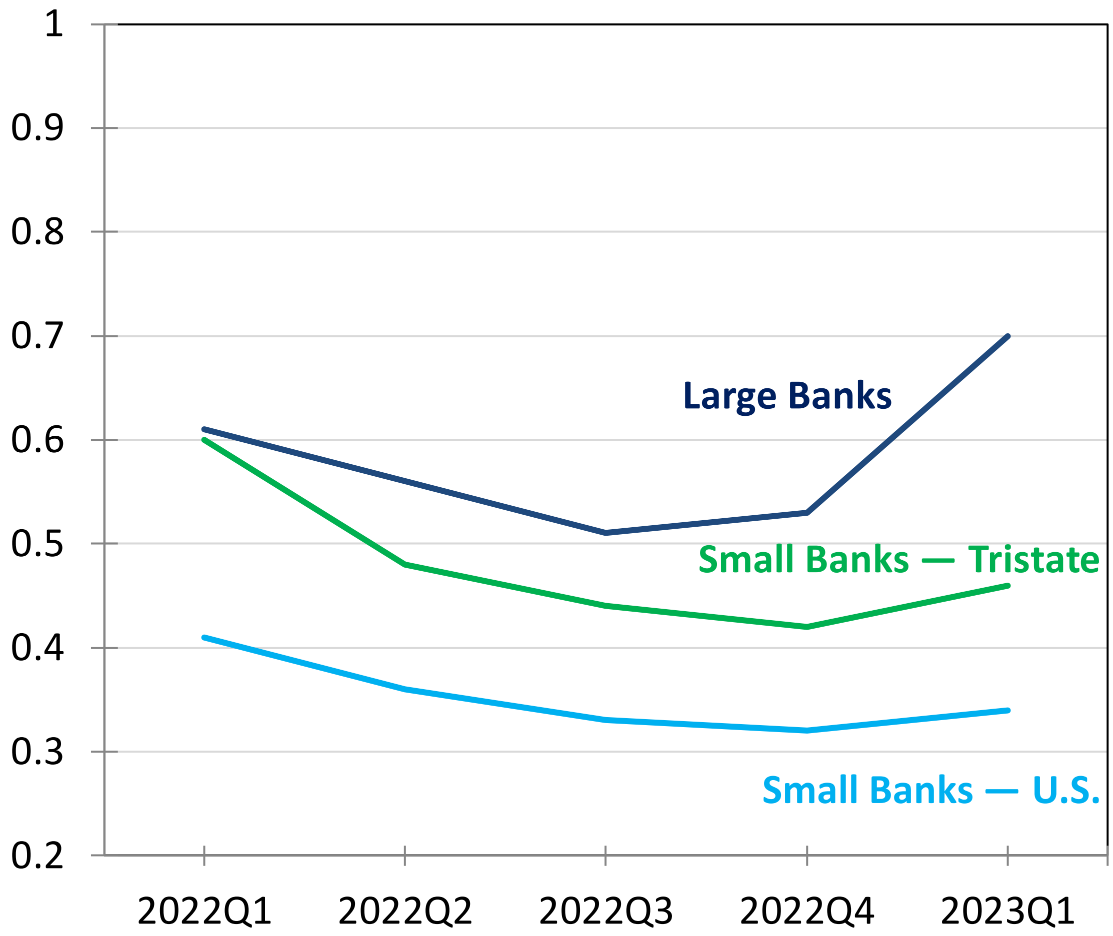
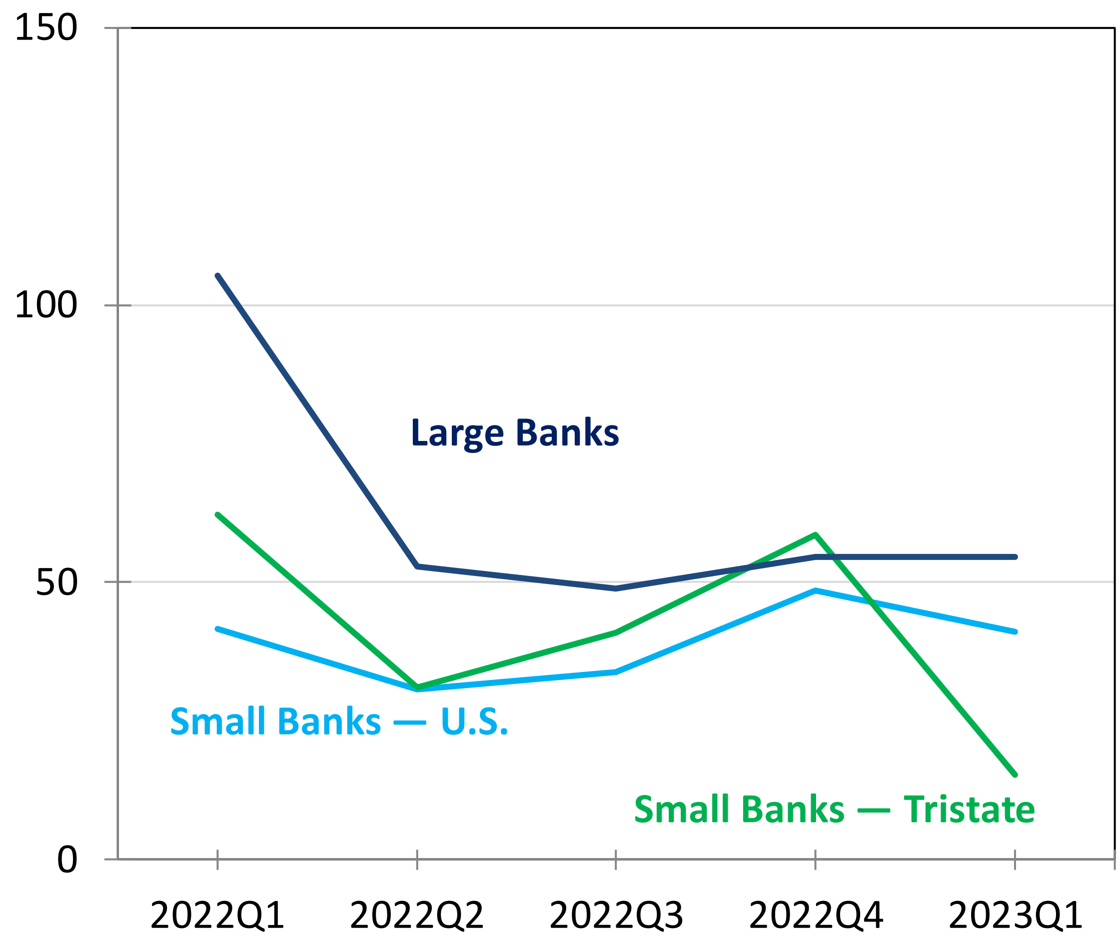


CHART 8

Net Charge-Offs as a Share of Loan Loss Provisions Decreased

Percent



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