



2023 CSBS Annual Survey of Community Banks: Key Findings

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Overview of Key Findings

- Highest Ranking External Risks
 - Net interest margins
 - Cost of deposits
 - Core deposit growth
- What is the largest challenge on core deposit growth?
 - Bank market competition
- Regulatory risk remains a high concern





Overview of Key Findings

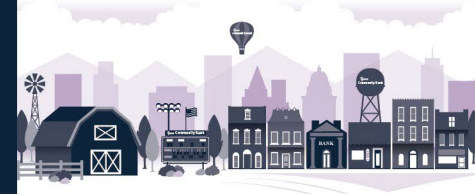
- Top Internal Risks
 - Cybersecurity
 - Liquidity
 - Staff retention
- Embracing Technology
 - Prioritizing adoption of new and emerging technologies
 - Very little interest in providing cryptocurrency services





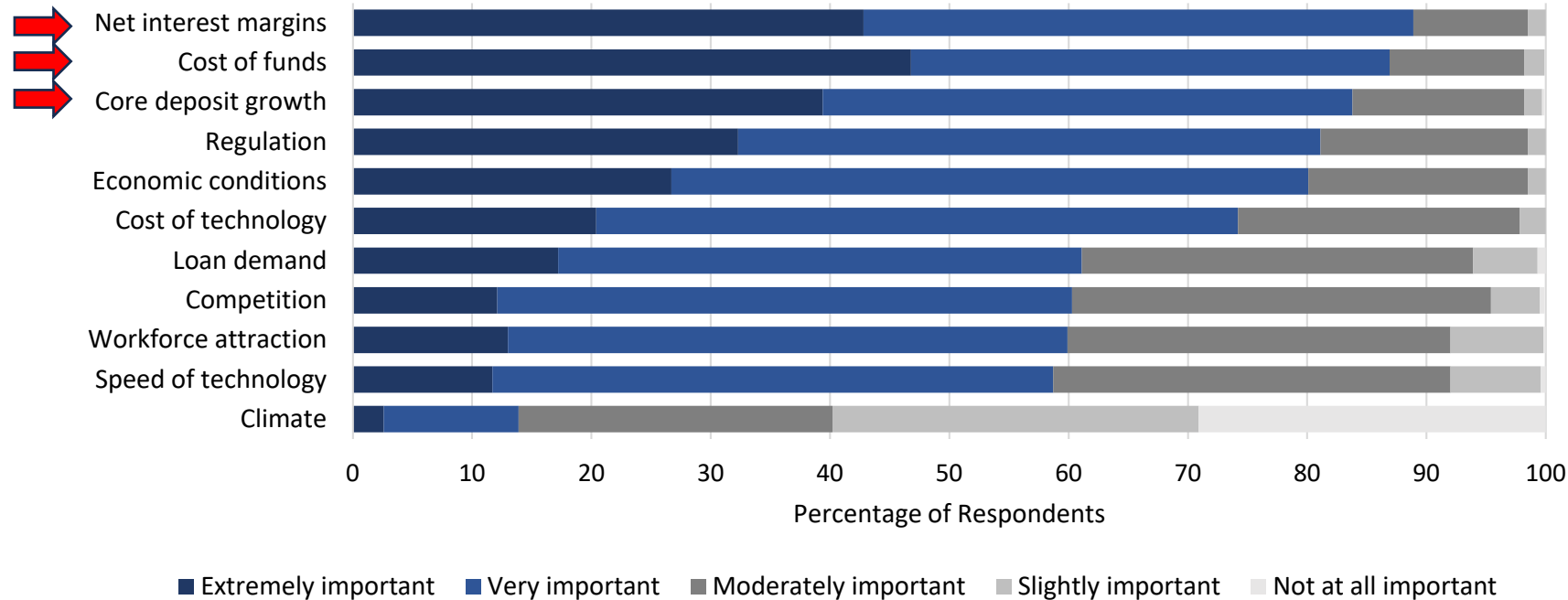
Net Interest Margins

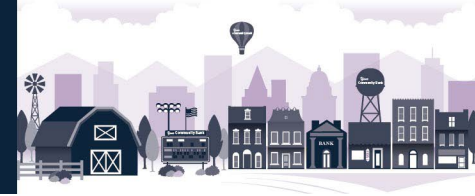




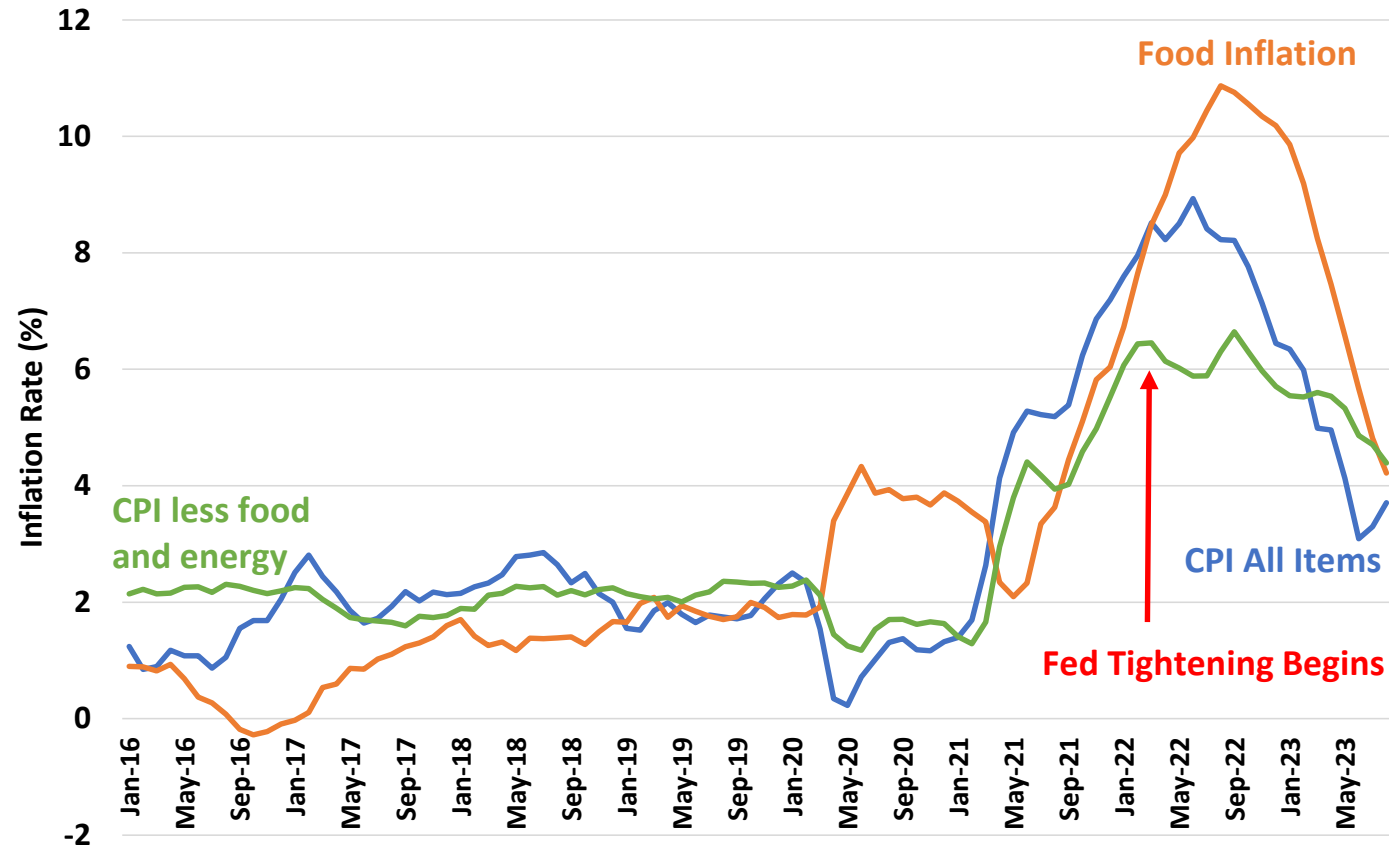
Key Finding: NIM, cost of funds, and core deposit growth top the list of challenges for bankers in 2023

How important are the following external risks to your bank today?





Higher Inflation Rates Prompted the Fed to Begin to Tighten Monetary Policy...

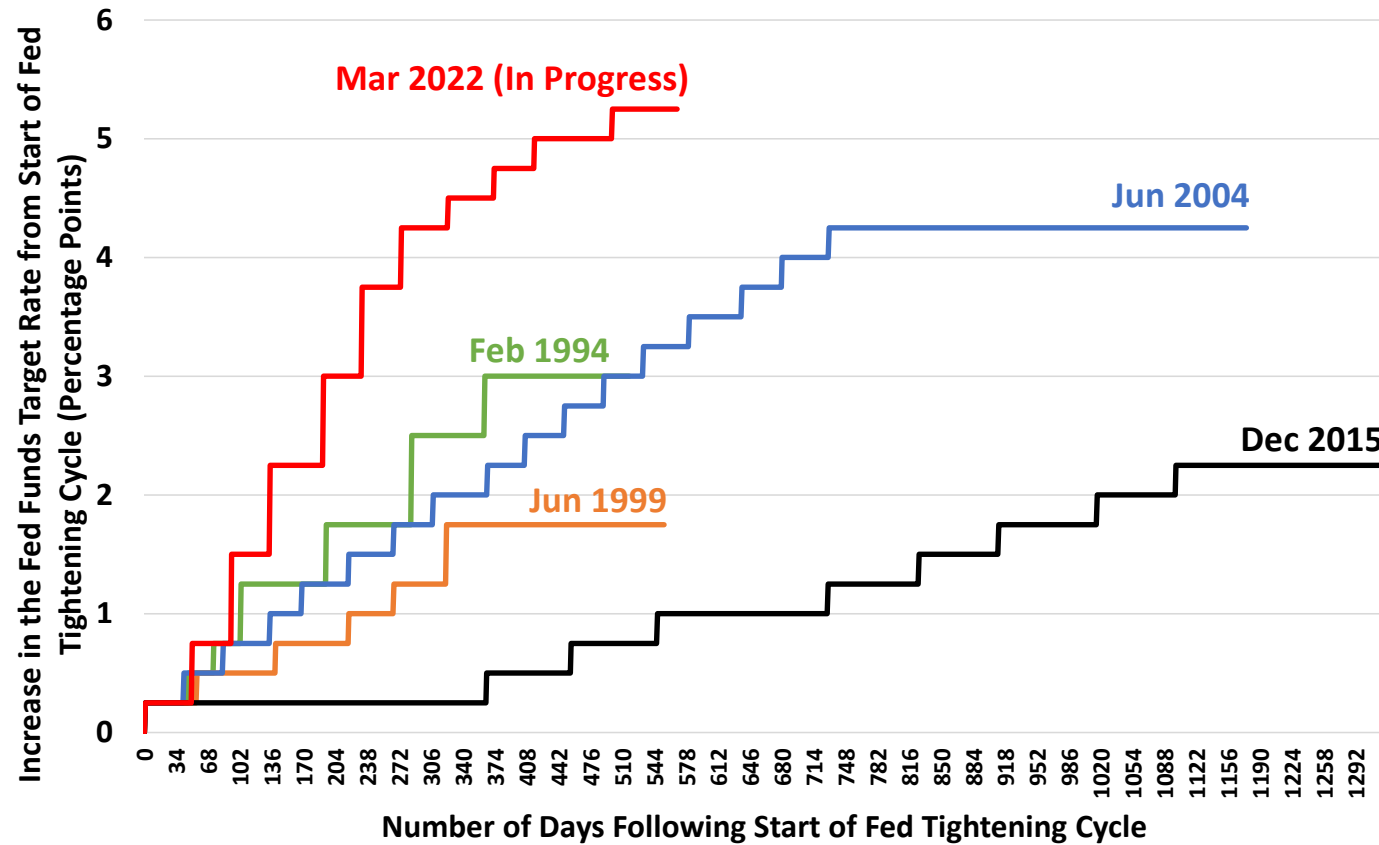


Source: U.S. Bureau of Labor Statistics





...Aggressively (Pace & Length of Recent Fed Tightening Cycles)

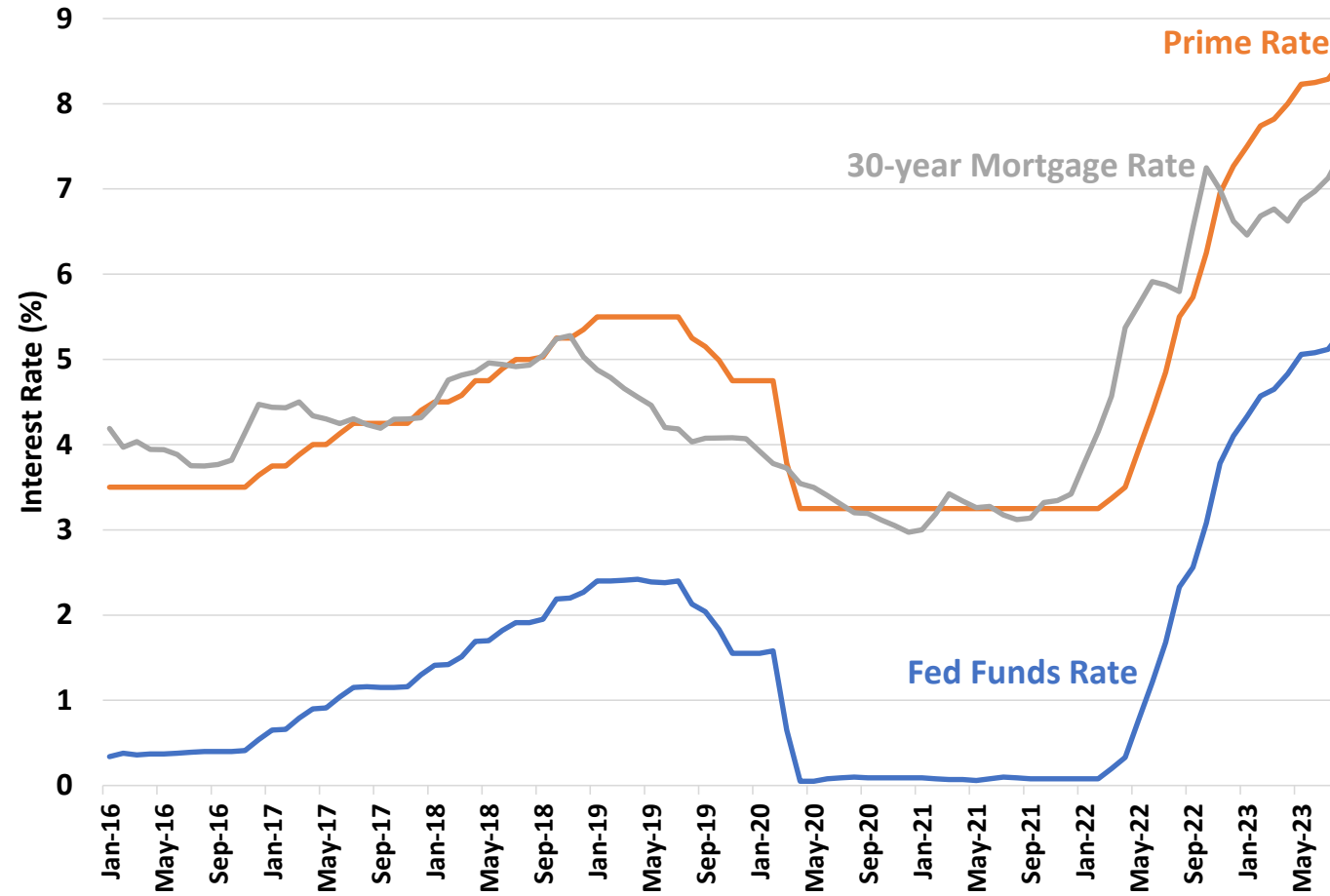


Source: Federal Reserve





Resulting in Interest Rates Moving Higher...

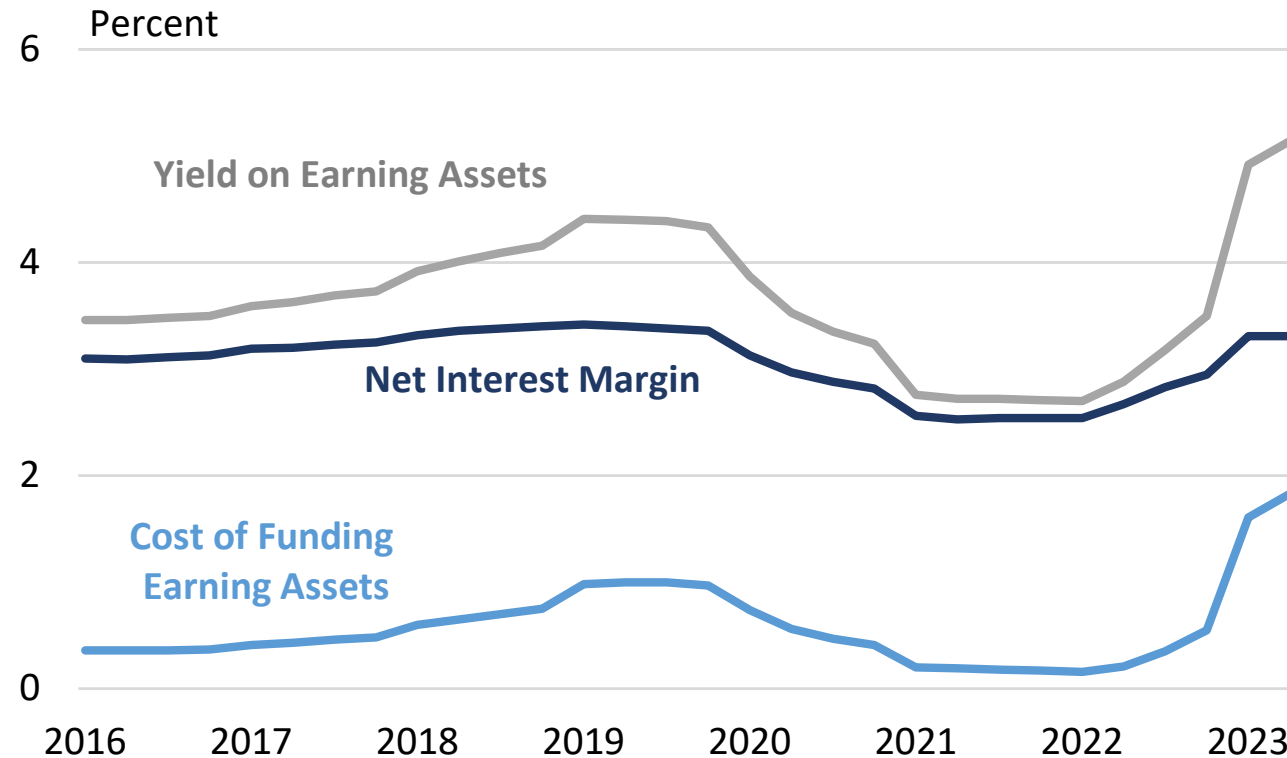


Source: Federal Reserve; Mortgage Bankers Association





...Challenging the Management of Net Interest Margins...



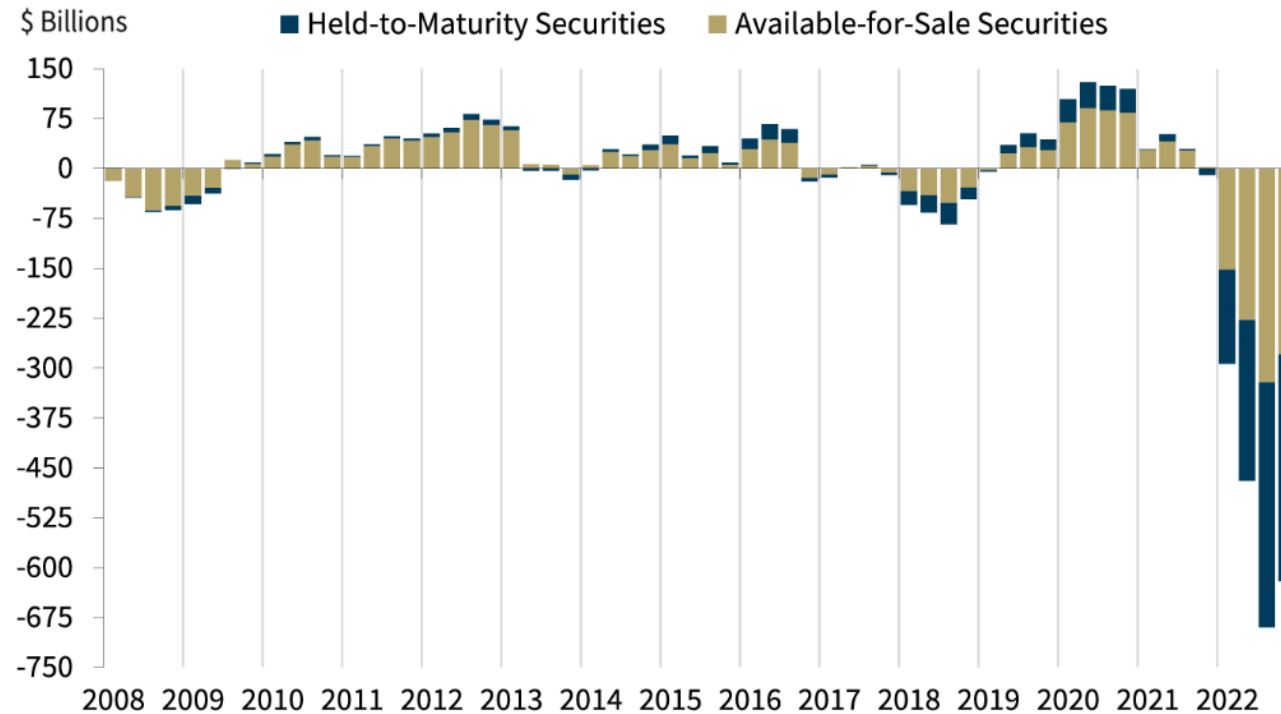
Source: FDIC, All Insured Institutions





...and the Management of Securities Portfolios

Unrealized Gains (Losses) on Investment Securities



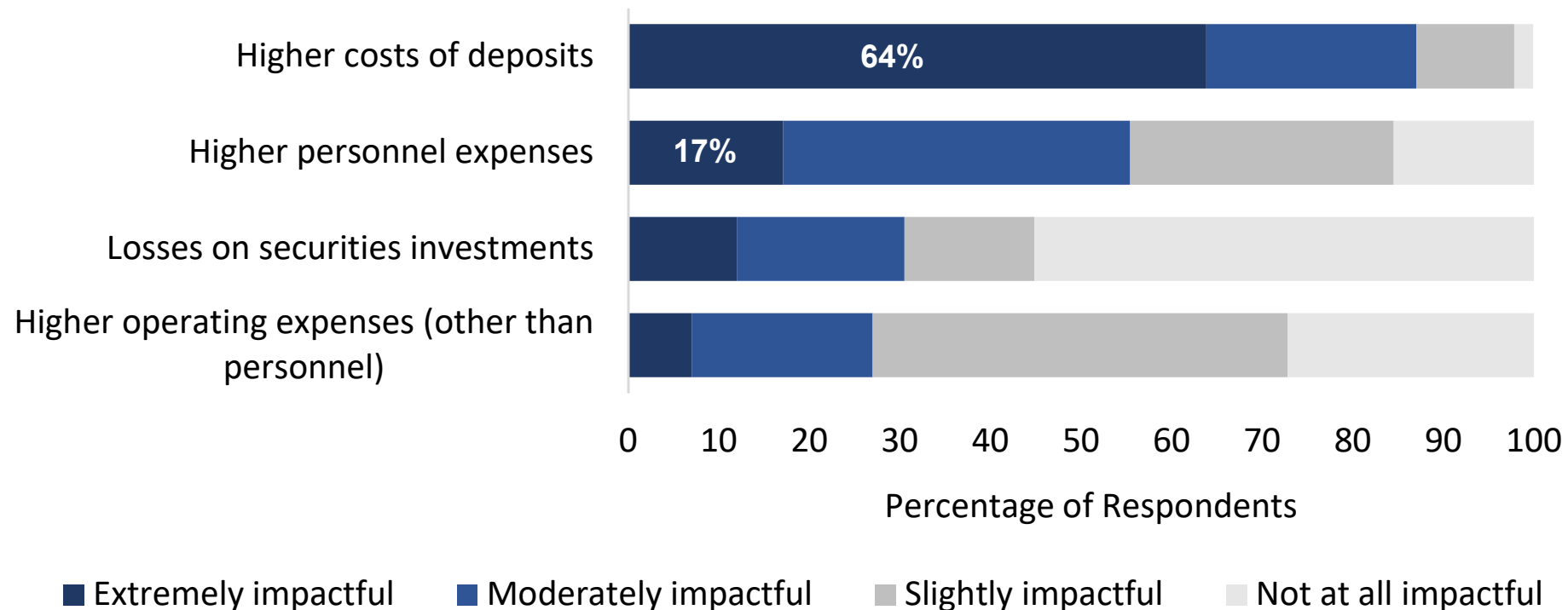
Source: FDIC.

Note: Insured Call Report filers only.



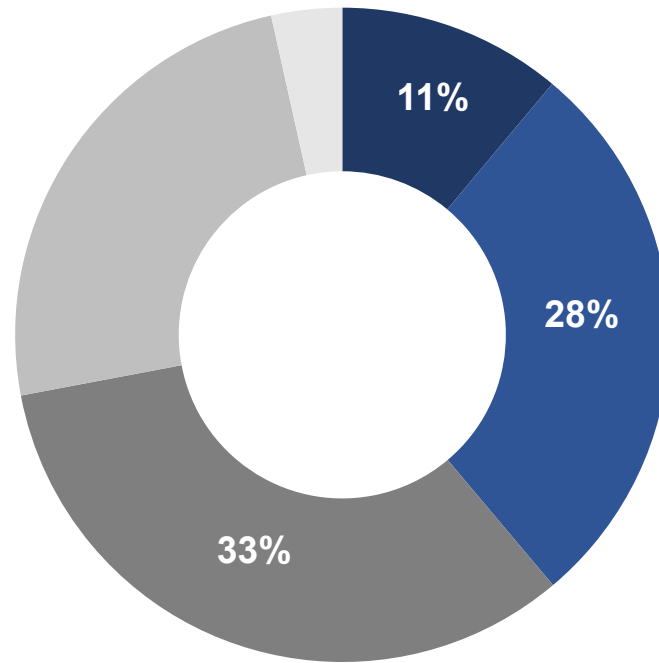


How would you rank the following effects of inflation on your bank in terms of level of impact?



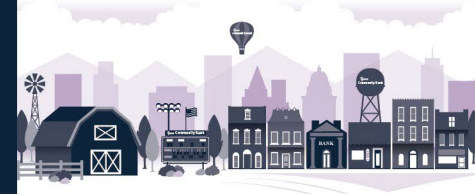


To what extent are you concerned about deposit flight?

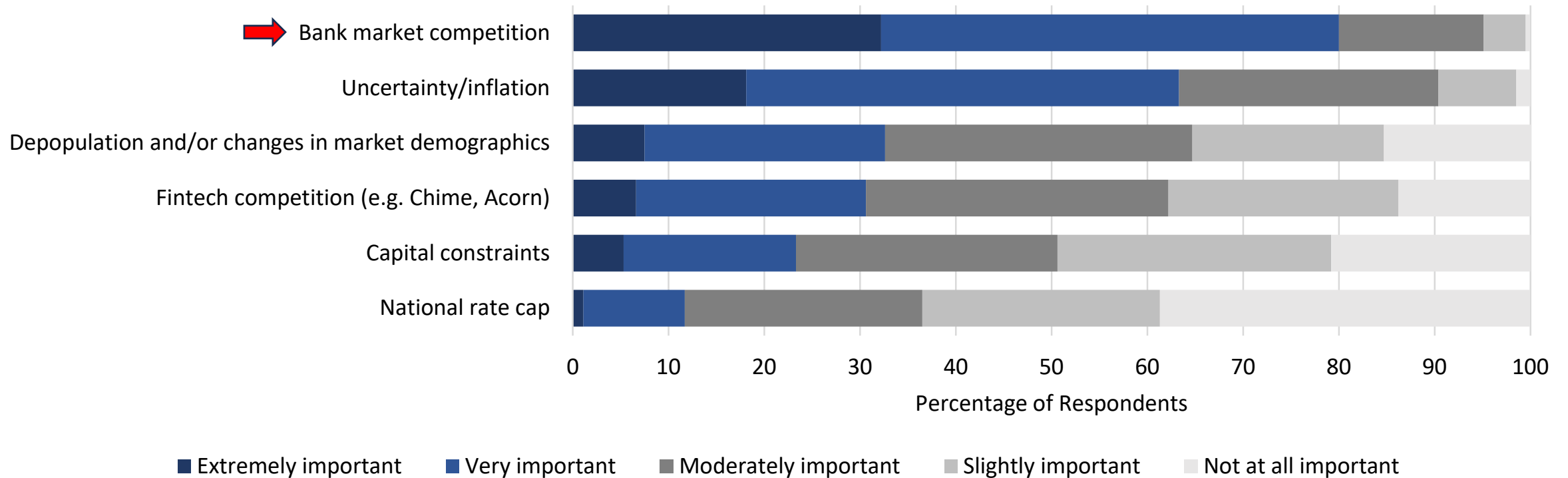


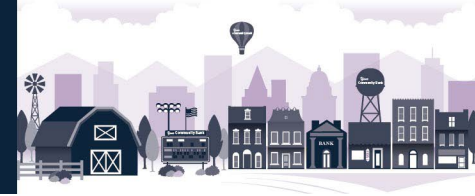
Percentage of Respondents

- Extremely concerned
- Very concerned
- Moderately concerned
- Somewhat concerned
- Not at all concerned

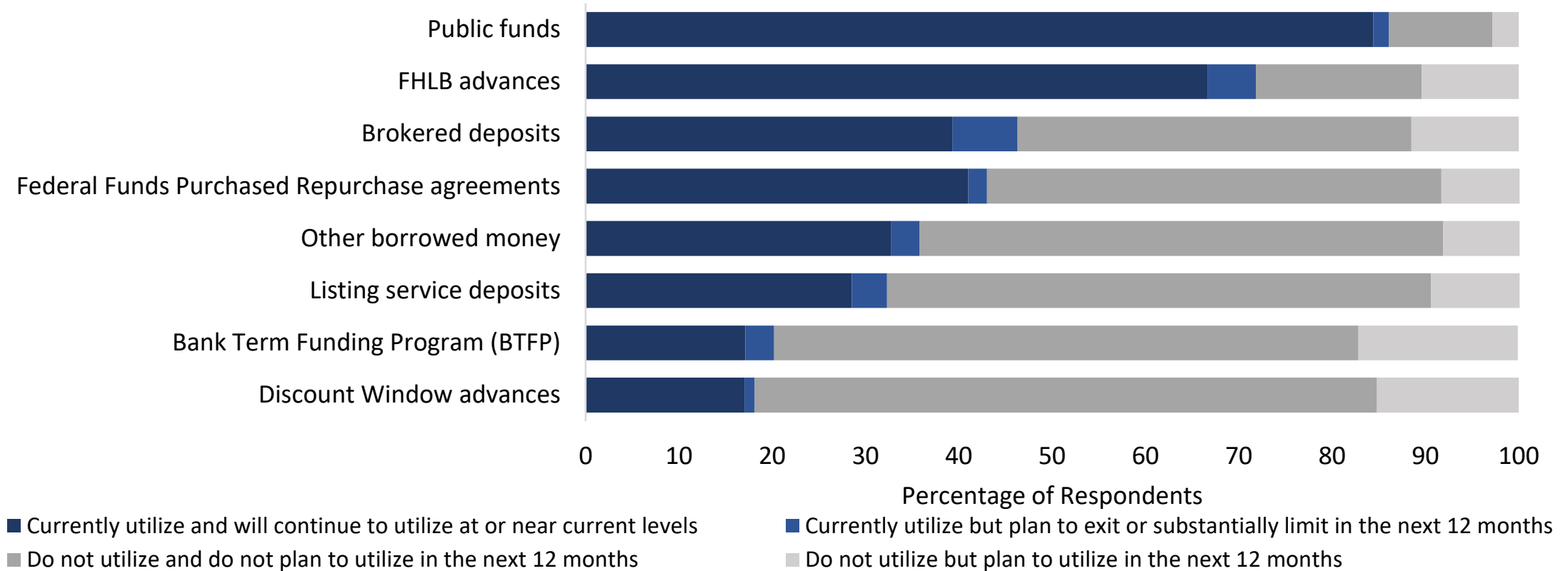


How important are each of the following potential challenges to attracting and retaining core deposits?





What are your institution's intentions regarding the following wholesale funding sources?





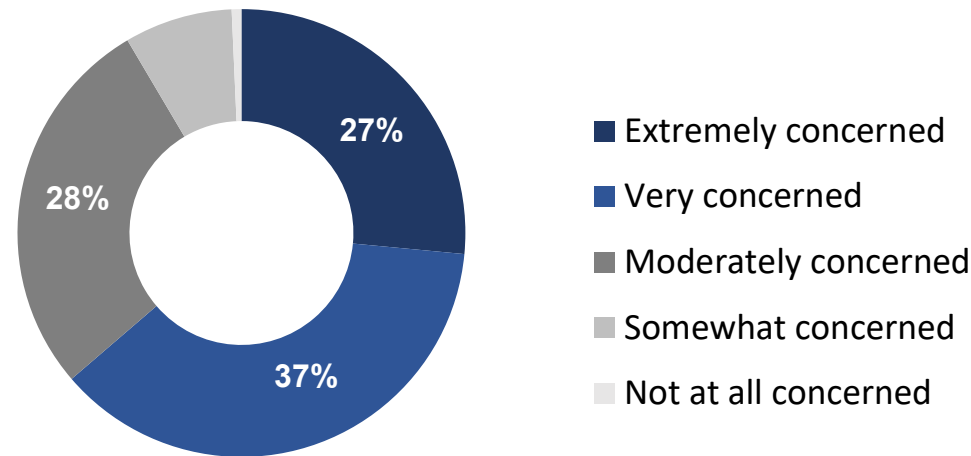
Regulation





Key Finding: Regulation concerns pick up after events in March 2023

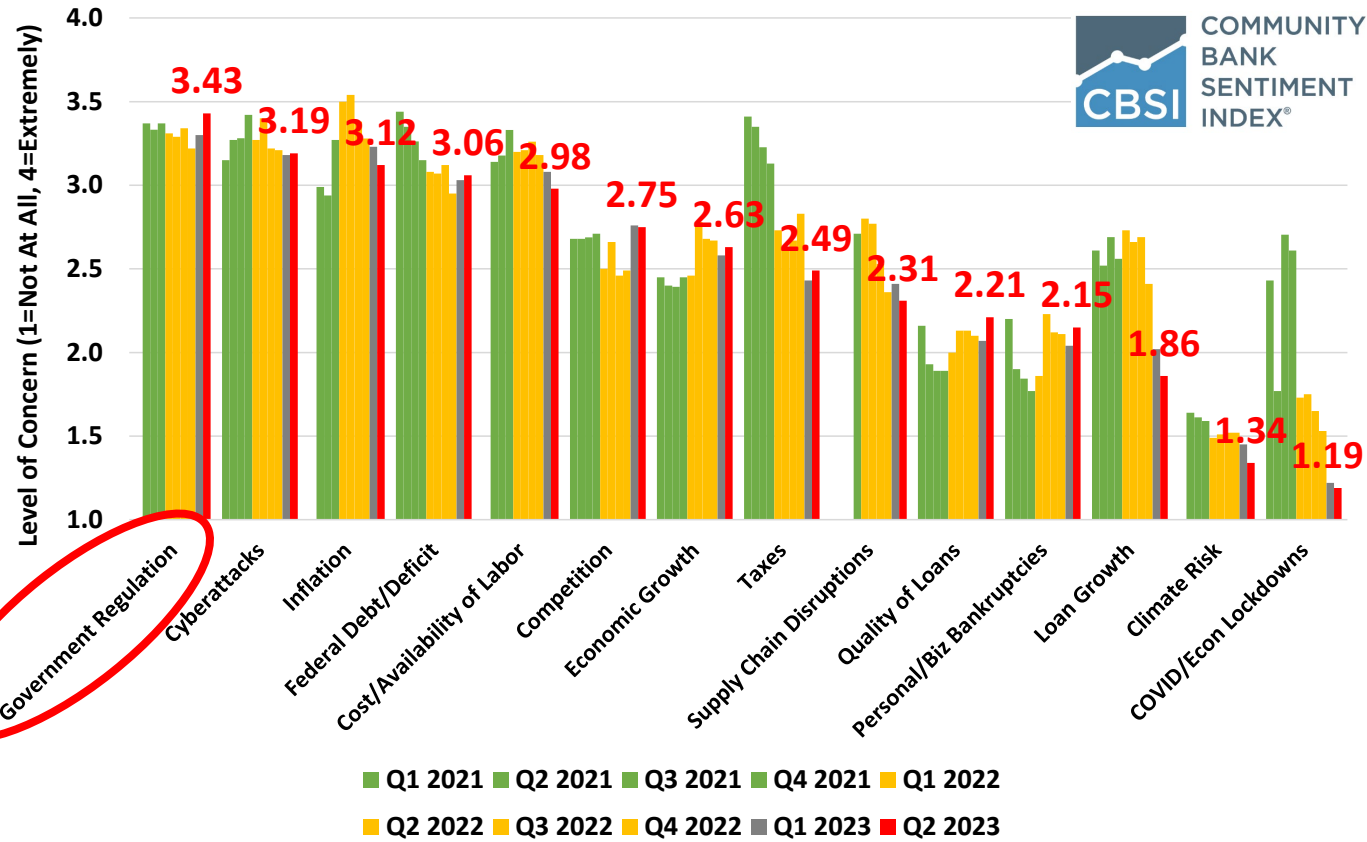
To what extent are you concerned about the regulatory response to the banking issues that arose in March of 2023?



Percentage of Respondents



Over the Next 12 Months, Community Bankers' Are Concerned About...





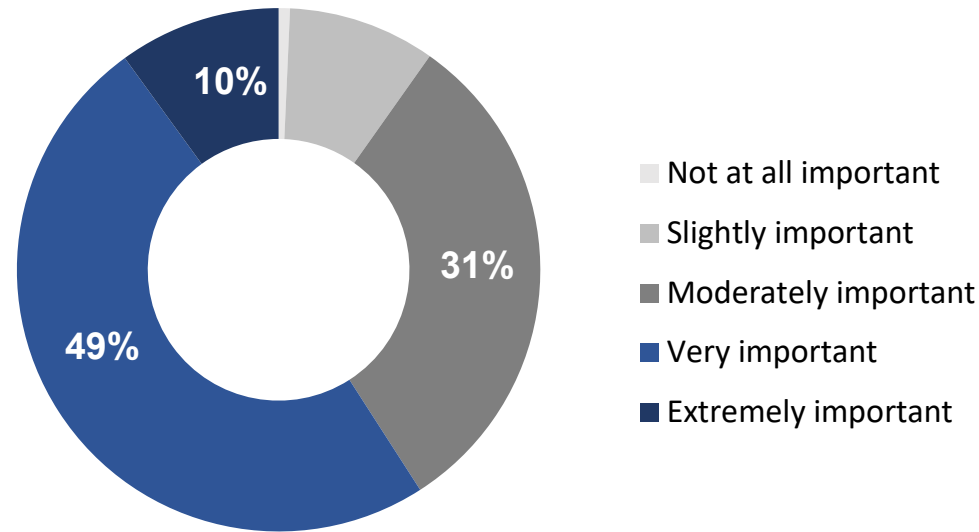
Technology & Cybersecurity





Key Finding: Bankers continue to prioritize the adoption of new or emerging technologies...

How important is the adoption of new or emerging technologies to meet customer demand in your market?



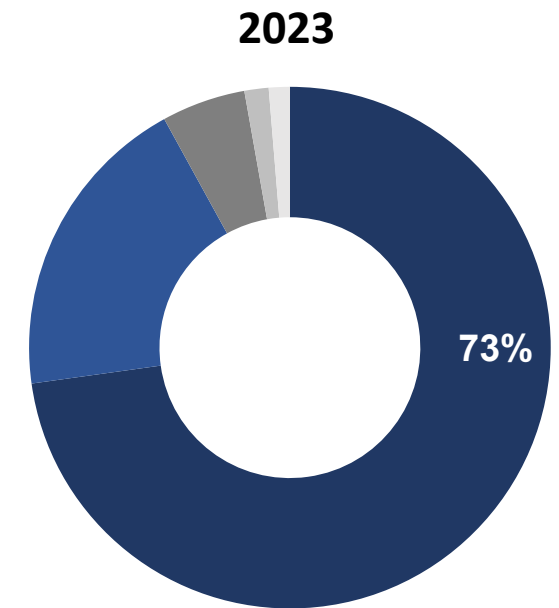
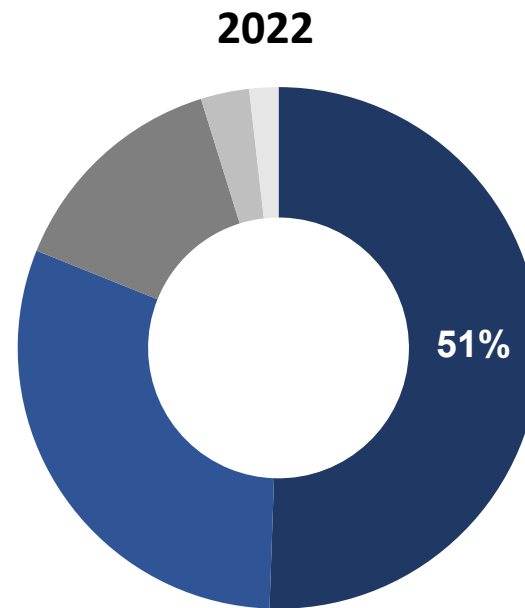
Percentage of Respondents



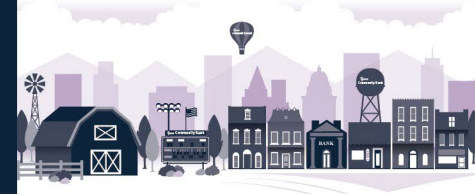
... but express less interest in cryptocurrency services in 2023

How important is meeting customer cryptocurrency needs at your bank?

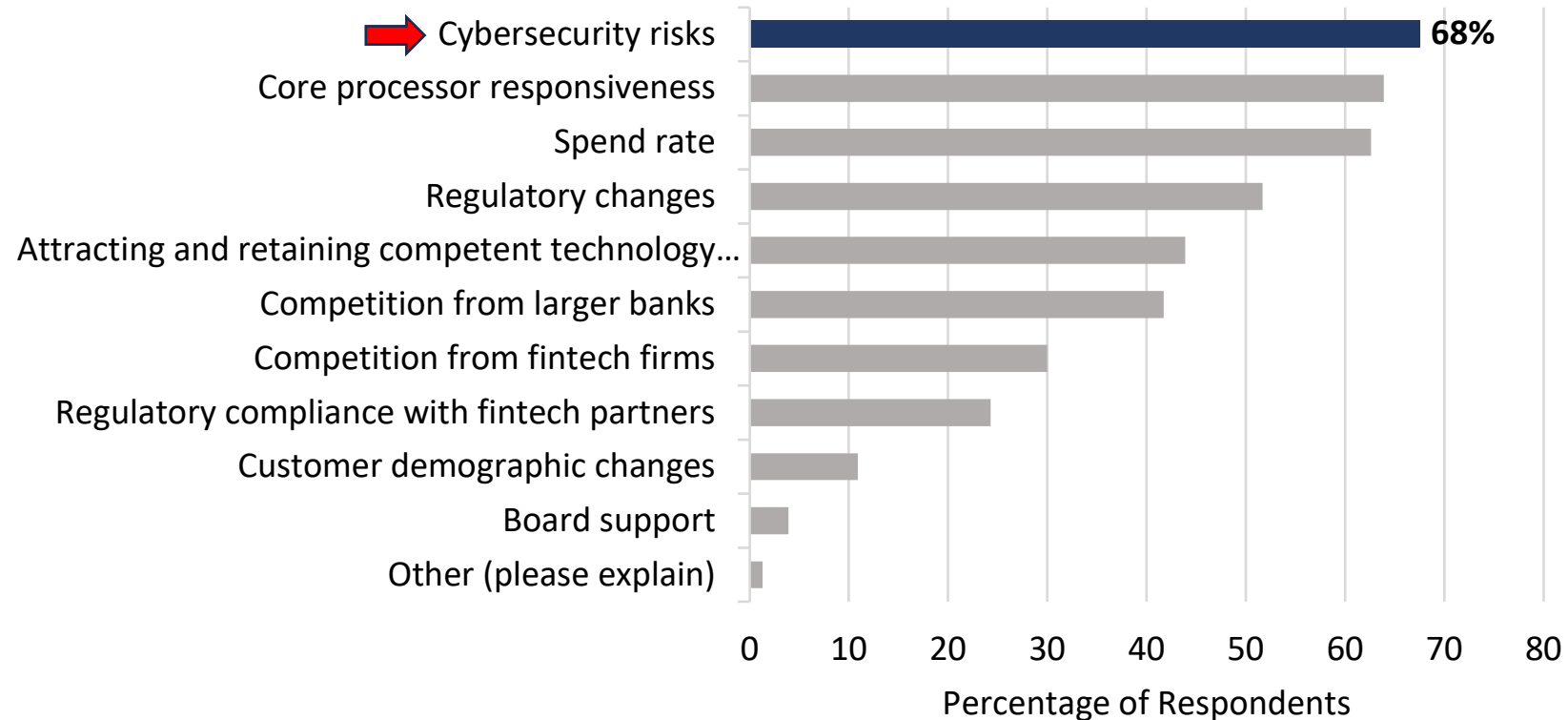
- Not at all important
- Slightly important
- Moderately important
- Very important
- Extremely important

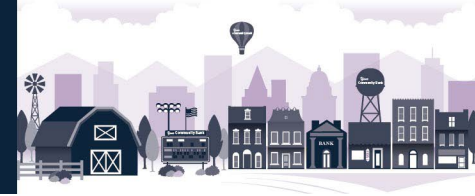


Percentage of Respondents



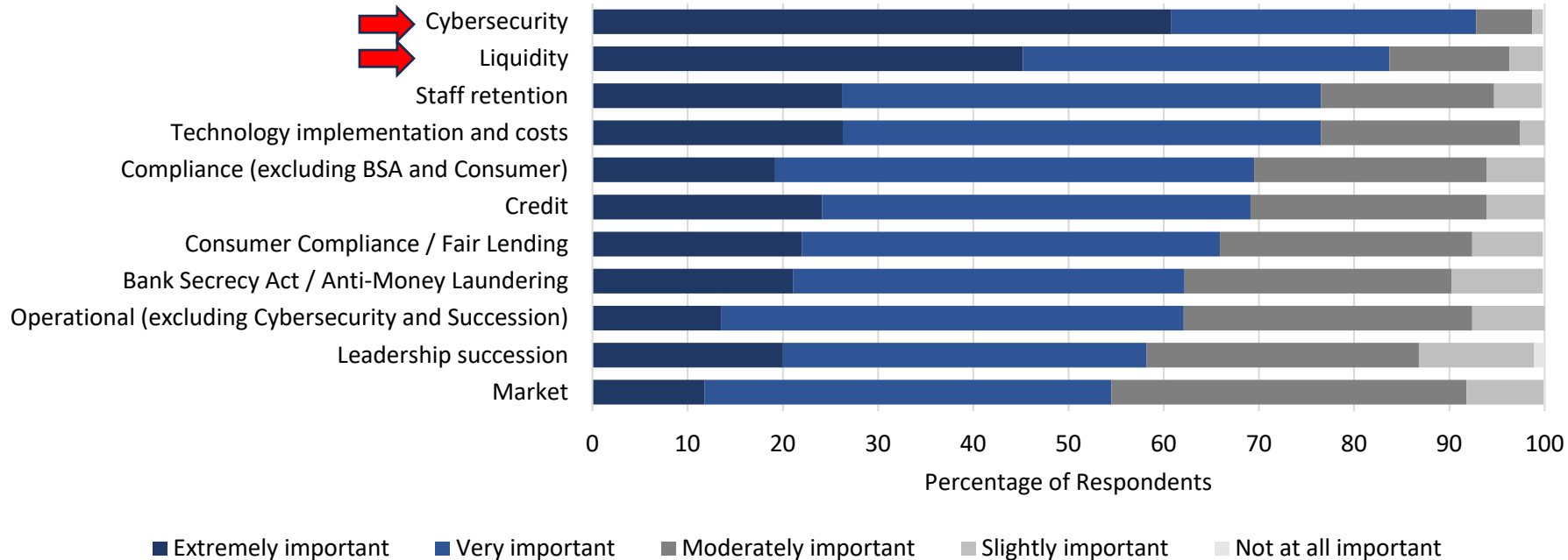
What do you see as the most difficult challenges to implementing new technology over the next 5 years?





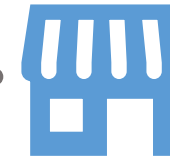
Key Finding: Cybersecurity remains top internal risk; Liquidity concerns jump in 2023

How important are the following internal risks facing your bank today?





Healthcare data breaches cost organizations almost **\$11 million** on average. This makes data breaches in healthcare the most expensive of any industry.



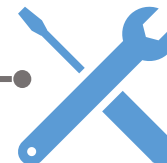
Small businesses experience significant financial consequences of cyber attacks, with an average impact of **\$2.98 million** per data breach for organizations with less than 500 employees.

Government Organizations faced **13%** of the total cyber attacks in the second quarter of 2020



Cyber attacks are estimated to cost **\$10.5 trillion** annually by 2025.

The **financial services** sector is a popular target for ransomware attacks. **55%** of organizations in this sector experienced an attack in 2021.



Utilities faced 1,780 DDoS attacks between June and August 2021, a **595% increase** from the year prior.





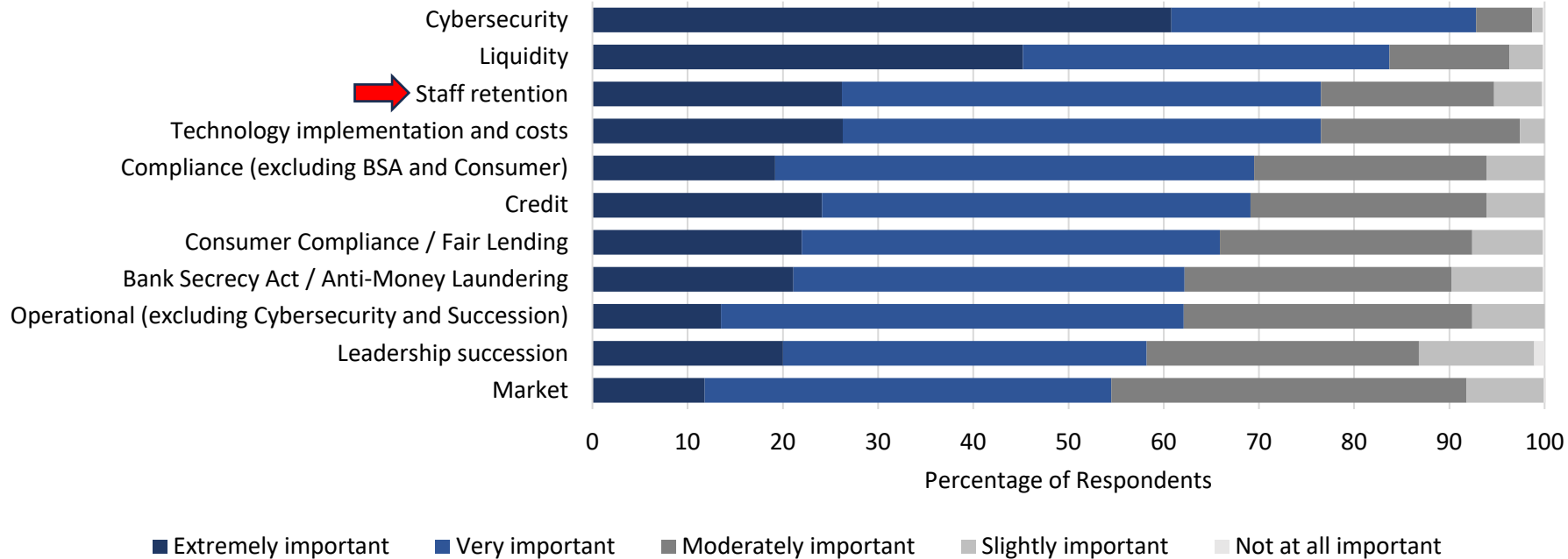
Workforce Retention





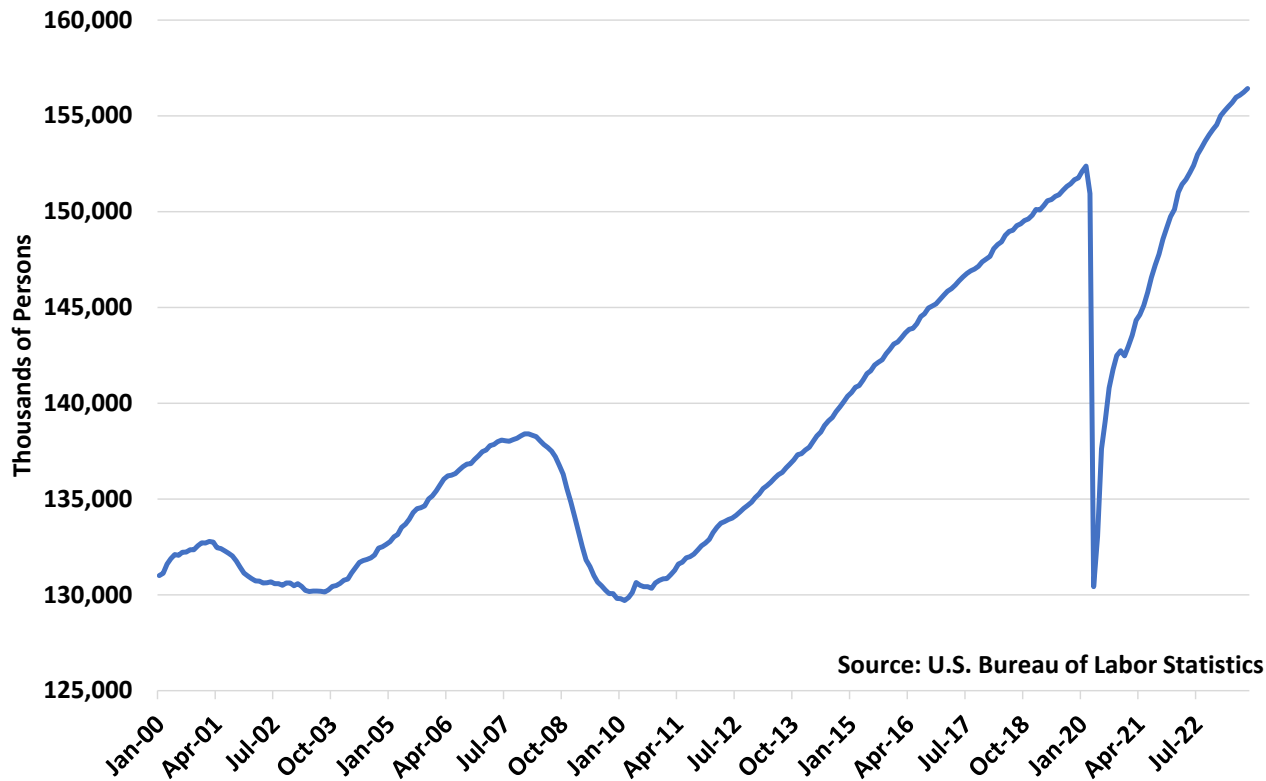
Key Finding: Staff retention remains a top 3 internal risk facing banks

How important are the following internal risks facing your bank today?

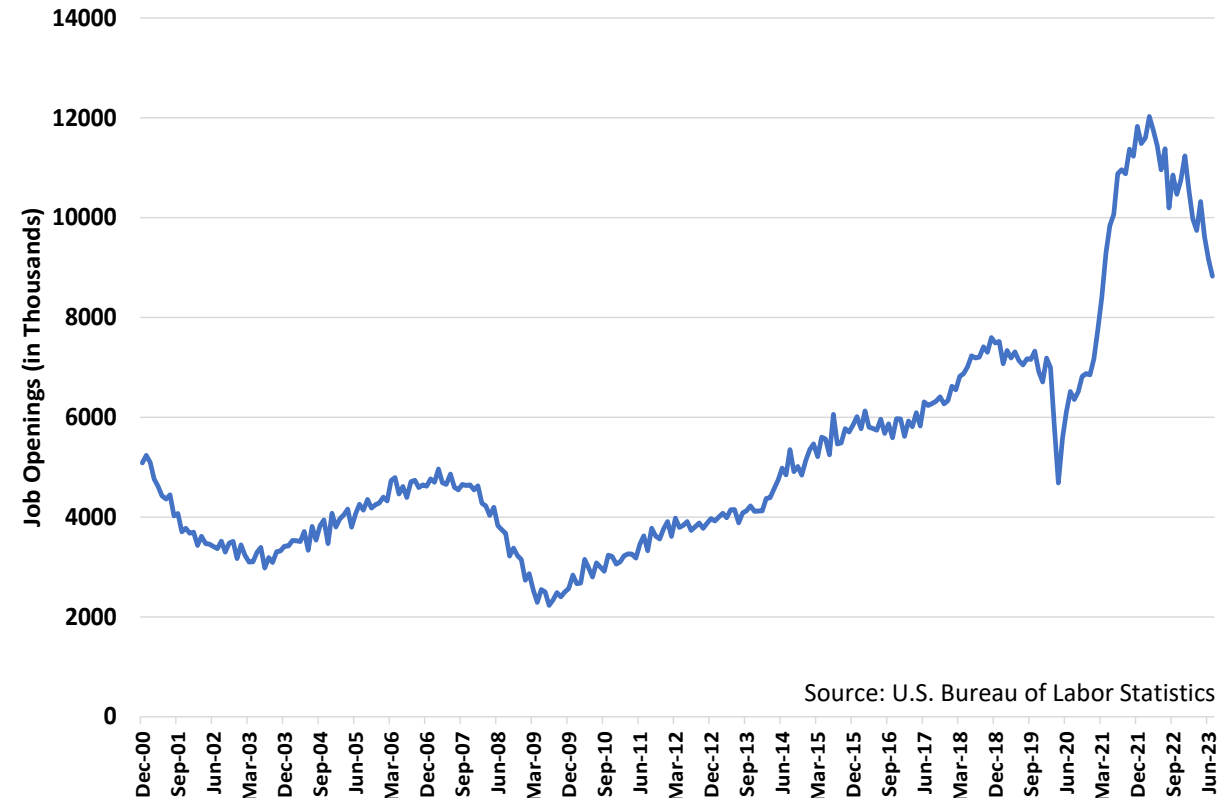




Total U.S. Nonfarm Payroll Employment Surpasses Former Peak by 4 Million



Help Wanted! Still 8.8 Million Open Jobs Available in the U.S.





Cost/Availability of Labor

NFIB Small Business Survey

SINGLE MOST IMPORTANT PROBLEM

SINGLE MOST IMPORTANT PROBLEM

August 2023

| Problem | Current | One Year Ago | Survey High | Survey Low |
|--------------------------|---------|--------------|-------------|------------|
| Taxes | 17 | 15 | 32 | 8 |
| Inflation | 23 | 29 | 41 | 0 |
| Poor Sales | 5 | 3 | 34 | 2 |
| Fin. & Interest Rates | 2 | 1 | 37 | 0 |
| → Cost of Labor | 8 | 10 | 13 | 2 |
| Government Regulation | 8 | 4 | 27 | 4 |
| Comp. from Large Bus. | 4 | 3 | 14 | 0 |
| → Quality of Labor | 24 | 26 | 29 | 3 |
| Cost/Avail. of Insurance | 5 | 4 | 29 | 0 |
| Other | 4 | 5 | 31 | 1 |

Source: NFIB





Questions?

For more on the 2023 Annual Survey of Community Banks:

<https://www.csbs.org/survey2023>

