INTRODUCTION

The FDIC was created in 1933 to maintain stability and public confidence in the nation's financial system. A key part of accomplishing this mission is the FDIC's work to identify and analyze risks that could affect banks. The *Risk Review* summarizes the FDIC's assessment of risks related to conditions in the U.S. economy, financial markets, and the banking industry. The analysis of the banking industry pays particular attention to risks that may affect community banks. As the primary federal regulator for most community banks, the FDIC has a unique perspective on these institutions.[1]

The 2023 *Risk Review* provides an overview of banking conditions for 2022 through early 2023, including key developments that emerged from the stress in the banking sector in March 2023.[2] The failure of three large banking institutions in March and May highlighted certain risks to the banking sector.[3]

The *Risk Review* presents key risks to banks in five broad categories—credit risk, market risk, operational risk, crypto-asset risk, and climate-related financial risk. The credit risk areas discussed are agriculture, commercial real estate, consumer lending, energy, housing, leveraged lending and corporate debt, nonbank financial institution lending, and small business lending. The market risk areas discussed are liquidity and deposits, and net interest margins and interest rate risk. The discussion of operational risk examines the potential negative impact to banks from cyber threats and illicit activity. Crypto-asset risk, a new section in the 2023 *Risk Review*, discusses the FDIC's approach to understanding and evaluating crypto-asset-related markets and activities. Monitoring these risks is among the FDIC's top priorities. The discussion of climate-related financial risk focuses on the physical risk of severe weather and climate events to the banking system.

Section 1 is an executive summary. Section 2 is an overview of economic, financial market, and banking industry conditions. Sections 3 through 7 include analysis of the key credit, market, operational, crypto-asset, and climate-related financial risks facing banks.

[1] Unless otherwise noted, "community banks" are FDIC-insured institutions that meet the criteria for community banks that was developed for the *FDIC Community Banking Study*, published in December 2012. Thresholds for certain criteria are adjusted upward quarterly and described in "Notes to Users" for the FDIC Quarterly Banking Profile. See, for example: page 35 of the FDIC Quarterly Banking Profile, First Quarter 2023. Noncommunity banks are banks that do not meet these criteria.

[2] This report contains banking information available as of March 31, 2023. Unless otherwise noted, banking industry data are for FDIC-insured institutions from Consolidated Reports of Condition and Income (Call Reports), with data beginning in 1984. This report defines the pre-pandemic level as fourth quarter 2019, unless noted otherwise.

[3] For more information on the three bank failures that occurred between March and May 2023, see "Remarks by Chairman Martin J. Gruenberg on "Oversight of Financial Regulators: Financial Stability, Supervision, and Consumer Protection in the Wake of Recent Bank Failures" Before the Committee on Banking, Housing, and Urban Affairs, United States Senate," May 18, 2023.