

# Earnings Rise at Member Banks

Member banks in the Sixth Federal Reserve District earned more on their capital and resources last year than in 1955, but the greater cost of doing business and higher losses on loans and investments held profit ratios at just about the same figure as in 1955. So great was the increase in stockholders' contributions that the 9-percent rise in net profits for the 378 member banks in operation the full year represented slightly less return on capital than in 1955.

The tendency toward higher earnings but lower profit rates at member banks, which was also evident in 1955, is revealed in the operating ratios for 1956 just completed by this Bank. These ratios are based on banks' earnings and dividend reports for the year, together with averages

of their statements of condition for December 31, 1955, and for June 30 and September 26, 1956.

The increase in the ratio of total earnings to total assets to 3.66 percent from 3.43 percent in 1955 reflected two important developments during the year. First, faced with heavy demands for loans and limited funds with which to grant them, member banks liquidated their Government securities, replacing them with higher-yielding loans. They further drew down their cash assets in order to grant more loans or to buy securities. The shift from Government securities to loans, together with fuller utilization of other cash assets, therefore, raised earnings significantly.

This shift, however, was not without its drawbacks. Government security prices declined during most of 1956 and some banks took sizable capital losses on their securities sales. Although they earned a higher rate on the securities they held, net losses on securities rose from .17 percent of total securities in 1955 to .27 percent in 1956. Moreover, the earning rate on loans, which had advanced appreciably in 1955, held steady during 1956.

Because of the increase in loans relative to other assets, member banks ended the year in a much less liquid position. The ratio of Government securities and cash assets to total assets declined from 57.3 percent in 1955 to 54.8 percent in 1956, the lowest ratio since World War II. Some banks will undoubtedly hesitate before making further reductions in their holdings of securities.

As in other recent years earnings on loans supplied the bulk of total earnings. The proportion in 1956, which was 59.6 percent, was about the same as in the preceding year. Interest on Government securities increased from 21.8 percent of total earnings in 1955 to 22.2 percent in 1956.

After payment of taxes amounting to 8.7 percent of total earnings, member banks were left 17.3 percent to disburse to stockholders or to strengthen capital positions. In 1955 net profits after taxes amounted to 18.5 percent. The rate of return on capital averaged 8.4 percent in 1956 only slightly less than the 8.5 percent earned in 1955.

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## Average Operating Ratios of all Member Banks in the Sixth Federal Reserve District

SUMMARY RATIOS:	1951	1952	1953	1954	1955	1956
Percentage of total capital accounts:						
Net current earnings before income taxes . . . . .	16.1	16.4	16.3	15.5	16.2	16.9
Profits before income taxes . . . . .	13.8	14.1	14.2	15.1	13.2	12.8
Net profits . . . . .	9.4	9.0	9.0	9.9	8.5	8.4
Cash dividends declared . . . . .	3.1	3.2	3.1	3.1	3.0	3.0
Percentage of total assets:						
Total earnings . . . . .	3.05	3.12	3.25	3.26	3.43	3.66
Net current earnings before income taxes . . . . .	1.13	1.14	1.15	1.10	1.18	1.23
Net profits . . . . .	.68	.64	.64	.71	.63	.62
SOURCE AND DISPOSITION OF EARNINGS:						
Percentage of total earnings:						
Interest on U.S. Gov. securities . . . . .	21.2	22.1	23.0	22.4	21.8	22.2
Int. and div. on other sec. . . . .	6.0	5.9	5.7	5.9	5.9	6.0
Earnings on loans . . . . .	58.5	58.7	58.6	58.8	59.7	59.6
Service charges on dep. accts. . . . .	6.9	6.6	6.4	6.7	6.6	6.5
Trust department earnings <sup>1</sup> . . . . .	2.6	2.2	2.2	2.6	2.6	2.6
Other current earnings . . . . .	7.4	6.7	6.3	6.2	6.0	5.7
Total earnings . . . . .	100.0	100.0	100.0	100.0	100.0	100.0
Salaries and wages . . . . .	31.7	31.7	32.0	32.3	31.6	31.2
Interest on time deposits <sup>2</sup> . . . . .	7.6	8.4	9.1	10.4	10.8	11.3
Other current expenses . . . . .	31.0	31.7	32.5	33.9	34.2	35.0
Total expenses . . . . .	62.7	63.4	64.5	66.2	65.8	66.2
Net current earnings before income taxes . . . . .	37.3	36.6	35.5	33.8	34.2	33.8
Net losses (or recoveries and profits +) . . . . .	4.8	4.5	3.8	+ 1.0	3.5	4.9
Net increase (or net decrease +) in valuation reserves . . . . .	...	...	.5	1.4	2.3	2.9
Taxes on net income . . . . .	10.0	11.4	11.3	11.4	9.9	8.7
Net profits . . . . .	22.5	20.7	19.9	22.0	18.5	17.3
RATES OF RETURN ON SECURITIES AND LOANS:						
Return on securities:						
Interest on U.S. Gov. securities . . . . .	1.8	1.9	2.04	2.06	2.12	2.46
Int. and div. on other sec. . . . .	2.6	2.6	2.67	2.60	2.52	2.52
Net losses (or recoveries and profits +) on total sec. <sup>3</sup> . . . . .	.1	.1	.08	+ .27	.17	.27
Return on loans:						
Earnings on loans . . . . .	6.0	6.3	6.30	6.19	6.35	6.35
Net losses (or net recoveries +) on loans <sup>3</sup> . . . . .	.1	.1	.20	.17	.10	.15
DISTRIBUTION OF ASSETS:						
Percentage of total assets:						
U. S. Government securities . . . . .	33.8	33.9	33.9	33.4	33.0	31.4
Other securities . . . . .	7.6	7.7	7.9	8.1	8.6	9.0
Loans . . . . .	30.4	29.8	30.8	31.5	32.8	34.8
Cash assets . . . . .	27.1	27.5	26.2	25.8	24.3	23.4
Real-estate assets . . . . .	.9	.9	1.0	1.0	1.1	1.2
All other assets . . . . .	.2	.2	.2	.2	.2	.2
Total assets . . . . .	100.0	100.0	100.0	100.0	100.0	100.0
OTHER RATIOS:						
Total capital accounts to:						
Total assets . . . . .	7.3	7.2	7.5	7.7	7.7	7.8
Total assets less Government securities and cash assets . . . . .	20.4	20.1	20.0	19.6	18.9	18.0
Total deposits . . . . .	8.0	7.9	8.2	8.4	8.5	8.6
Time deposits <sup>4</sup> to total deposits . . . . .	22.7	22.6	23.5	24.8	25.8	26.0
Interest on time deposits <sup>4</sup> to time deposits . . . . .	1.0	1.1	1.23	1.36	1.42	1.62
Number of banks . . . . .	353	355	358	362	369	378

<sup>1</sup>Banks with none were excluded in computing this average. Ratio included in "Other current earnings."  
<sup>2</sup>Banks with none were excluded in computing this average. Ratio included in "Other current expenses."  
<sup>3</sup>Includes recoveries or losses applied to either earnings or valuation reserves.  
<sup>4</sup>Banks with none were excluded in computing this average.

## Bank Announcements

On March 29 the Peoples Bank and Trust Company of Sylacauga, Sylacauga, Alabama, opened for business as a member of the Federal Reserve System. Officers are W. H. McKinnon, Chairman of the Board; A. Hayes Smith, President; and J. B. Boykin, Vice President and Cashier. Capital stock totals \$100,000 and surplus \$50,000.

On April 1 the Austell Bank at Austell, Georgia, began to remit at par for checks drawn on it when received from the Federal Reserve Bank. The bank's officers are J. G. Lundy, President; Florence Murray Childs, Vice President; J. T. Thomason, Vice President; and Walter M. Mills, Cashier. It has capital stock of \$100,000 and surplus and undivided profits of \$80,000.