



1956

Annual Report

TO THE DIRECTORS

I N D E X

Directors and Officers	1
Changes in Directors and Officers	6
National Economic and Credit Conditions	8
Assets	19
Liabilities	21
Departmental and Other Comments:	
Accounting	25
Check Collection	29
Currency and Coin	34
Discount and Credit	39
Duplicating	44
Examination	45
Fiscal Agency	50
Noncash Collection	56
Personnel	57
Planning	65
Protection	67
Public Services	68
Purchasing	72
Research	73
Safekeeping	77
Capital Accounts	79
Dividends	82
Bank Premises	83
Earnings	86
Expenses	93

HEAD OFFICE DIRECTORS
AND MEMBER OF FEDERAL ADVISORY COUNCIL

DIRECTORS

Leslie N. Perrin, Chairman, and Federal Reserve Agent
O. B. Jesness, Deputy Chairman

Term Expires
December 31

Class A

Harold C. Refling, Cashier, First National Bank in Bottineau Bottineau, North Dakota	1957
Joseph F. Ringland, President, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota	1958
Harold N. Thomson, Vice President, Farmers and Merchants Bank, Presho, South Dakota	1959

Class B

Ray C. Lange, President, Chippewa Canning Company, Inc., Chippewa Falls, Wisconsin	1957
T. G. Harrison, President, Super Valu Stores, Inc., Hopkins, Minnesota	1958
J. E. Corette, President and General Manager, Montana Power Company, Butte, Montana	1959

Class C

O. B. Jesness, Head, Department of Agricultural Economics, University of Minnesota Institute of Agriculture, St. Paul, Minnesota	1957
F. Albee Flodin, President and General Manager, Lake Shore, Inc., Iron Mountain, Michigan	1958
Leslie N. Perrin, Director, General Mills, Inc., Minneapolis, Minnesota	1959

MEMBER OF FEDERAL ADVISORY COUNCIL

Julian B. Baird, Chairman, The First National Bank of Saint Paul, St. Paul, Minnesota	1957
--	------

OFFICERS

O. S. Powell, President

A. W. Mills, First Vice President

C. W. Groth, Vice President and Cashier
General Supervision over all internal operations
Building:
 Construction
 Maintenance
 Telephone Equipment
Protection
Purchasing
 Duplicating
Vault Assignments
Equipment Repairs

M. B. Holmgren, Vice President

W. C. Bronner, Assistant Cashier
Fiscal Agency
Securities:
 Purchase and Sale
Withheld Federal Taxes
Commodity Credit Corporation
Government Coupons
Destruction of Unfit U. S. Currency
Registered Mail

A. W. Johnson, Vice President

J. J. Gillette, Assistant Cashier
Check Collection
Non-cash Collection
Ordinary Mail
Check Standardization and Routing Symbol

E. B. Larson, Vice President

H. G. Mc Connell, Vice President

R. K. Grobel, Chief Examiner
Bank Examination
Security Exchange Act
Secretary, Board of Directors

OFFICERS (Contd.)

M. H. Strothman, Vice President
Loans and Discounts
Industrial Loans
Regulation V Loans
Secretary, Discount Committee

Sigurd Ueland, Vice President & Counsel
Legal
Secretary of the Bank

O. W. Ohnstad, Assistant Vice President
Expenditures
Operating Reports
Security Program
Loan Assistant
Telephone Personnel

C. Ries, Assistant Vice President
Currency and Coin
Securities:
Safekeeping

Clement Van Nice, Assistant Vice President
Carl E. Bergquist, Assistant Cashier
Public & Bank Relations
Announcements
Circulars
Correspondence
Press Relations

George M. Rockwell, Assistant Cashier

M. O. Sather, Assistant Cashier
Accounting:
General Books and Member Bank
Reserve Accounts
Transfer of Funds
Foreign Exchange Reports
Files and Old Records

M. E. Lysen, Operating Research Officer
Operating Letters
Operating Manuals
Planning:
Efficiency Studies
Equipment
Office Forms
Space Studies
Suggestions
Retirement System Trustee

OFFICERS (Contd.)

F. L. Parsons, Director of Research
O. F. Litterer, Business Economist
Research
Statistics
Publications
Library

F. J. Cramer, Personnel Officer
Personnel:
Personnel Maintenance
Retirement System
Social Security
Medical
Education and Welfare
Cafeteria
Office Boys and Pages

- - -

A. J. McNulty, General Auditor

K. K. Fossum, Vice President
H. A. Berglund, Assistant Vice President
J. L. Heath, Assistant Cashier
Assigned to Helena Branch

HELENA BRANCH DIRECTORS

Carl McFarland, Chairman
George R. Milburn, Vice Chairman

	<u>Term Expires</u> <u>December 31</u>
George R. Milburn, Manager, N Bar Ranch, Grass Range, Montana	1957
A. W. Heidel, President, Powder River County Bank, Broadus, Montana	1957
Carl McFarland, President, Montana State University, Missoula, Montana	1958
J. Willard Johnson, Financial Vice President and Treasurer, Western Life Insurance Company, Helena, Montana	1958
Geo. N. Lund, Chairman of the Board and President, The First National Bank of Reserve, Reserve, Montana	1958

CHANGES IN DIRECTORATE

At the annual election in November, Harold N. Thomson, Vice President of the Farmers and Merchants Bank, Presho, South Dakota was re-elected Class A director and J. E. Corette, President and General Manager of the Montana Power Company, Butte, Montana was re-elected Class B director.

Each was chosen for a term of three years expiring December 31, 1959.

The Board of Governors reappointed Leslie N. Perrin, Director, General Mills, Inc., Minneapolis, Minnesota as Class C director for a three-year term beginning January 1, 1957 and redesignated him as Chairman and Federal Reserve Agent for 1957.

The Board also redesignated Dr. Oscar B. Jesness, Head of the Department of Agricultural Economics at the University of Minnesota, as Deputy Chairman for 1957.

Our Board of Directors re-elected Julian B. Baird, Chairman, The First National Bank of Saint Paul as member of the Federal Advisory Council for the coming year.

At the Helena Branch Dr. Carl McFarland, President, Montana State University, Missoula, Montana was reappointed by the Board of Governors to serve as a director for a two-year term beginning January 1, 1957.

Our Board of Directors re-elected J. Willard Johnson, Financial Vice President and Treasurer, Western Life Insurance Company, Helena, Montana and Geo. N. Lund, Chairman of the Board and President, The First National Bank of Reserve, Reserve, Montana for two-year terms commencing January 1, 1957.

The Helena Branch directors elected Carl McFarland, Chairman, and George R. Milburn, Vice Chairman for the year 1957.

CHANGES IN OFFICIAL STAFF

Effective March 1, Oliver S. Powell and A. W. Mills were reappointed as President and First Vice President of the bank respectively for five-year terms.

On April 1, Otis R. Preston, Vice President retired from active service.

On December 17, the following promotions were announced, effective January 1, 1957:

Clarence W. Groth was promoted to Vice President and Cashier.

A. W. Johnson was promoted to Vice President.

M. B. Holmgren was promoted to Vice President.

NATIONAL ECONOMIC AND CREDIT CONDITIONS

Despite a receding level of output in two important industries, autos and housing, the American economy in 1956 produced goods and services at a faster pace than ever before. This prodigious outpouring of wealth was accomplished in an environment of relatively scarce credit, a condition reflected by the highest level of interest rates generally since the start of the depression of the 'thirties. Statistical measures of the great prosperity were numerous.

Our most valuable resource, labor, was employed in larger quantities than ever before. The number of people at work grew more rapidly than the labor force with the result that unemployment declined to a level little higher than the historical, irreducible minimum. The degree to which available labor is utilized constitutes one of the most meaningful measures of economic welfare.

Negotiated in an atmosphere of labor scarcity, 1956 wage agreements were generous. In manufacturing, average wages rose a dime an hour, the same increase as in 1955. Real wages grew somewhat less rapidly than money wages owing to rising prices. Indeed, the practice of adjusting wage rates with changes in the "cost of living" index has become a part of many labor agreements.

A more comprehensive measure than wage rates of our people's economic welfare is the level of real, per capita, disposable (after taxes) income. This figure, since it is adjusted for price changes, allows us to observe changes in the average American's "standard of living" -- the amount of goods and services his income will buy after payment of taxes. It is remarkable that despite the highest level of Federal tax receipts in history and despite the upward drift of consumer prices, U. S. per capita

income after taxes would buy more goods and services in 1956 than ever before. Thus, judged by the criterion of how well it satisfies human wants, our economic system performed admirably last year.

For analytical convenience, the Department of Commerce distinguishes three groups who, together, purchase the nation's output. These are--in order of importance--consumers, government and business (capital expenditures). Each of the groups mentioned increased their spending in 1956.

The most noteworthy change in the pattern of consumer expenditures was a decline in the level of spending for durable goods which was more than offset by higher spending for nondurables and for services. Lowered sales of new automobiles were chiefly responsible for the lesser rate of spending on durables. Assemblies of new cars fell from 7.9 million in 1955 to 5.8 million in 1956; this was a drop of more than 26 per cent. For other than autos, consumers spent freely in 1956; retail sales, for example, averaged more than 3 per cent higher in 1956 than in 1955--despite the inclusion of new car sales in the retail figure. Total spending by consumers, at \$264.1 billion, was up 4 per cent from 1955.

Besides curtailing their expenditures for new cars, Americans also cut back on spending for new housing. The number of homes erected fell by 16 per cent from 1955 to 1956; the figures were 1,324 thousand and 1,120 thousand respectively. The dollar value of new homes built fell much less (from \$16.6 billion to \$15.5 billion or 6.5 per cent) than the number of homes started owing to higher average prices. Most of these homes will be paid for over the next 20 or 25 years.

But construction spending by business and government rose more than enough to offset the decline in residential construction. Spending

for construction by business alone, up \$1.9 billion, was enough to offset the \$1.1 billion drop in residential construction.

Spending by business increased too owing to larger purchases of capital equipment. A gain of \$4 billion represented an increase of 17 per cent in this type of spending. Spending by business for the purpose of adding to inventories was little changed from 1955.

It might be noted that capital formation by business has been growing since 1953; this has constituted an important offset to the decline in government expenditures which followed the conclusion of the Korean War. Spending by consumers, on the other hand, has increased in every year since the beginning of World War II.

Federal Reserve efforts to stop inflation were aided by the reduction in federal government expenditures which took place in 1954 and 1955. In 1956 the U. S. Treasury spent approximately the same amount as in 1955. But in 1957 the official budget indicates an upturn.

Unlike the federal government, state and local governments have increased their spending in every year during the postwar period. From 1955 to 1956 nonfederal government spending rose from \$30.1 billion to \$32.6 billion. The continued rapid growth in population and housing, of course, has required stepped-up state and local budgets for schools, sewers and other public improvements. The fraction of the nation's output taken by all levels of government fell to 19 per cent in 1956; not since 1951 had it been less than 20 per cent and in 1953 it was 23 per cent. Most of the improvement came because of expanded output rather than cutbacks in spending.

The increase in spending of consumers, business and government was greater than the increase of goods and services available for purchase

with the result that prices for a wide variety of things moved up in 1956. The inflationary threat motivated a continuation of credit restraint by the Federal Reserve. This policy allowed interest rates to rise higher than at any time in more than twenty years. The demand for credit was growing faster than the supply.

That spending could rise so much without a comparable increase in the nation's supply of money is explained with reference to the turnover, or velocity, of money. Turnover continued to rise in 1956 as it had in 1955.

All types of money market instruments were yielding substantially more at the end of 1956 than at the beginning. Treasury bills went from 2.5 per cent to 3.3 per cent in yield; long term governments went from 3 per cent to 3.45 per cent (and 3.5 per cent early in 1957). In keeping with market yields, the Federal Reserve discount rate was lifted from 2.5 per cent to 3 per cent.

It is worthy of note that the policy of credit restraint in 1956 was accomplished not by reducing the reserves or the "lending power" of banks but simply by failing to provide banks with additional reserves. Thus, interest rates rose because credit demands grew, not because the supply of credit was reduced.

DISTRICT ECONOMY

The district's most important industry, agriculture, enjoyed a slightly higher total of cash receipts in 1956 than was true in 1955. Preliminary income estimates indicate that cash receipts from marketing farm products may be up 3-4 per cent in Minnesota and North Dakota. The same estimates show a slight drop in Montana receipts and a more substantial

decline from a year ago in South Dakota, perhaps 10 per cent.

District farmers experienced both good and bad crop conditions during 1956--with weather and moisture accounting for most of the differences. Such differences took on a distinctly regional pattern for the most part. Across the western Dakotas and eastern Montana, drouth and the threat of drouth was a major concern during the spring and the summer months. Particularly damaging was a siege of hot, searing winds about mid-June which caught early seeded small grains, particularly oats, at a tender stage and cut yields over a wide area, including parts of southern Minnesota. The 1956 season was unusual in that late-seeded small grains on spring plowing seemed to suffer considerably less damage than early seedings on fall plowing--contrary to the usual experience.

Early-season dryness cut hay yields sharply in many western areas of the district, with the result that winter feed supplies were reduced from normal.

Even where early heat and dryness hurt hay and small grains, however, many of these same areas got enough moisture at just the right time to produce one of the best corn crops in several years. Further east, Minnesota produced a record corn crop, even with some 14 per cent less acres planted to corn than in 1955 and despite some conversion of land to the soil bank. In fact, most of the eastern district, including much of North Dakota and some areas of eastern South Dakota enjoyed excellent crops, while crops in western areas of the district were reduced well below normal.

Despite area extremes, however, crop production for the district as a whole was relatively large, but about 6 per cent below 1955 output. Most of the reduction was in wheat, down 12 per cent from 1955. Production of durum wheat was the exception--good crop yields throughout much of North

Dakota, helped by newly-developed rust resistant varieties along with weather conditions favorable to rust free development, produced a durum crop of 39 million bushels, the largest in recent years.

Although some cattle liquidation occurred in severely dry areas, cattle production continued large for the district as a whole. Numbers on feed were down about 9 per cent from a year ago on October 1, but by the end of the year had increased more than seasonally to 5 per cent more cattle on feed than a year ago.

Hog production, on the other hand, was cut back even further in district states than the estimated national cutback of 8 per cent. Reductions in 1956 spring pig farrowings in district states ranged from 17 to 26 per cent, and farrowings for the year were down 16 to 23 per cent. With reduced marketings, however, hogs enjoyed significant price improvement during the latter half of 1956. In fact, it can probably be said that the turning point in farm prices was reached about mid-1956.

A good measure of nonagricultural business in the district is the level of nonfarm employment. During 1956, employment rose in all district states; in the greater part of the district, a new postwar record was established. In Upper Michigan and Northwestern Wisconsin nonfarm employment rose from the relatively low level of 1955 but it did not equal the level which prevailed from 1950-55.

The volume of nonresidential construction, which proved to be a main prop to the nation's economy in 1956, set another record during the year. The expansion in this type of construction more than offset the contraction in home building. The amount of contracts awarded for all types of nonresidential construction--industrial, commercial, educational, public and heavy engineering--aggregated \$542 million in this district, an increase

of \$92 million from 1955.

The district boom in nonresidential construction was less marked than the national expansion. Industrial plant expansion, in particular, was not as strong here in 1956 as in the more industrialized areas. The smaller bulge in construction activity is reflected in the relatively moderate employment rise in this field--3 per cent above the average monthly total in 1955 for both residential and nonresidential projects.

A strong district rise in manufacturing employment compensated for the moderate rise in construction. In this field the hiring of additional labor exceeded the national rate. The increase in the average monthly total in 1956 was 4 per cent; in the whole nation it was only 2 per cent. Most of the additional district workers were engaged in the manufacture of durable goods.

In Minnesota, where nearly 90 per cent of the total district workers in the manufacture of durable goods are employed, the large increase in employment in 1956 was concentrated in the manufacture of electrical and non-electrical machinery, excluding agricultural machinery. (In the latter industry, the average monthly employment in 1956 was down almost 10 per cent from 1955.) Smaller increases in employment occurred in lumber and wood products, fabricated metal products, stone, clay and glass, and in primary metals.

In the field of government service, which ranks third among the employment categories in the ninth district, the 1956 increase averaged 3 per cent, due largely to the hiring of additional teachers in schools and colleges, one result of the steadily growing school population. In the other enterprises--mining, transportation and utilities, trade, finance, insurance and service--the increases in employment ranged from a fraction of 1 per cent to a maximum of 2 per cent.

Not all industries enjoyed prosperity. One industry to face a declining market was residential building. The number of new housekeeping units authorized by permits in ninth district cities was down 19 per cent from the number authorized in 1955. During the autumn builders in the larger cities cut back sharply on their building and laid off some of their workers.

The mining of iron ore was interrupted by labor disputes in the steel industry and, later, in the Pittsburgh Steamship division of the United States Steel Corporation. These disputes drastically reduced shipments of ore to lower lake ports in July and August. Shipments in these two months totaled 10.7 million gross tons as compared with over 12.5 million gross tons each in May and in June. During this period employees lost substantial amounts of income so that it became necessary for many firms to adjust repayments on charge accounts and instalment loans. Before the end of the shipping season part of the lost income was recovered through overtime pay. In the 1956 season 77.6 million gross tons were shipped as compared with 87.5 million in 1955 and 60.8 million in 1954.

Slow farm implement sales caused layoffs by manufacturers. Because of the strong demand for workers in industrial centers, some of these workers secured either temporary or permanent employment with other firms. This shortened the period of idleness and, thereby, reduced the loss of income for many laid-off workers and their families. The mild upturn in cash farm income has created some confidence that the sales prospects for farm implements will be brighter this spring.

The slump in automobile sales did not affect the economy of this district as much as it did other regions of the nation. Only one assembly plant and a small number of parts-manufacturers are located here. Obviously, however, automobile dealers and salesmen were affected by the drop in sales. In the four district states the decrease in sales, according to

registrations, ranged from 9 per cent in Minnesota to 19 per cent in South Dakota. Even the latter percentage is small compared with a 34 per cent decrease in the state of Michigan. Nationally, passenger car sales dropped from 7.2 million in 1955 to an estimated 6.0 million in 1956, a decrease of 16 per cent.

DISTRICT BANKING IN 1956

Judging by the profit and loss statements of district member banks for the first half of 1956 (last half not yet available) the year just concluded was the most prosperous in history for member banks in the ninth Federal Reserve district. Four aspects of district banking in 1956 are worthy of particular comment: earnings, loans, interest rates, and the behavior of deposits. The latter rose above the previous record level set in 1954.

Factors responsible for the improvement of earnings included the substitution of loans for lower yielding investments and a boosted average rate of return on both loans and investments. In 1955 the proportion of total earning assets represented by loans averaged 46 per cent; in 1956 this proportion averaged 52 per cent. The effect of this change in the composition of earning assets was to raise the average rate of return on earning assets as a whole.

This is because the average yield on loans held by district banks is more than double the yield on securities held. It is estimated that the average yield of loans and investments respectively was 5.22 per cent and 2.40 per cent in early 1956 and 4.99 per cent and 2.06 per cent in early 1955. These estimates are based on averages of amounts reported monthly for holdings of loans and investments and on semiannual reports of earnings from loans and investments submitted by the banks.

The upward movement of interest rates generally has added to bank expense as well as to revenue. Thus, in the first half of 1956, interest expense reported by district member banks amounted to 1.41 per cent of average time deposits while a year earlier the ratio was 1.34 per cent. The upward trend of interest on time deposits is likely to continue. Beginning January 1, 1957, member banks and other insured commercial banks were permitted higher maximum rates on time deposits and certificates than was true previously. The highest rate which can now be paid is 3 per cent for savings or for time deposits and certificates of deposits with a duration of six months or more.

Not since 1932 has the ratio of loans to deposits been so high at district member banks. The loan growth, which occurred in every district state and part state last year was a phenomenon common to banks throughout the nation. A comparison of the autumn (most recent available) Call Reports for 1955 and 1956 discloses that almost half the indicated \$159 million loan increase at district banks represented additional commercial and industrial loans.

Loan Increase In Millions
10-5-55 to 9-26-56

Commercial and Industrial Loans	\$ 74
Real Estate Loans	49
Automobile Paper	21
Other Loans	<u>15</u>
Total Loans	\$159

Many lenders found real estate loans of fixed yield less attractive in 1956 than in 1955 owing to the rising interest yielded by other types of loans. Although real estate loans have increased in every postwar year at district member banks, the rate of increase declined markedly in 1956. Real estate loans rose \$49 million in the year ended October 1956 while in the

previous year an increase of \$74 million was reported.

The rate of increase in auto paper held by district banks also fell in 1956, but only slightly. Paper worth \$21 million was added in the year ended October 1956 while \$25 million was added in the previous year. Of course, new car sales in the district also fell from 1955 to 1956, as mentioned previously.

At the end of 1956 district member bank loans were \$181 million higher than a year earlier; this was a gain of 10.6 per cent for the year. In 1955 loans rose 14.6 per cent. The loan growth in 1956 was financed mostly with additional deposits but partly by the liquidation of investments and by borrowing. Holdings of U. S. government securities were reduced by \$78 million while other securities were acquired in the amount of \$4 million.

District member banks added almost 3 per cent to total deposits in 1956. This increase compares favorably with the 2+ per cent gain reported by member banks in the rest of the nation and represents a reversal of the net outflow of deposits sustained in 1955. Deposits were up in every district state (or part state) except South Dakota.

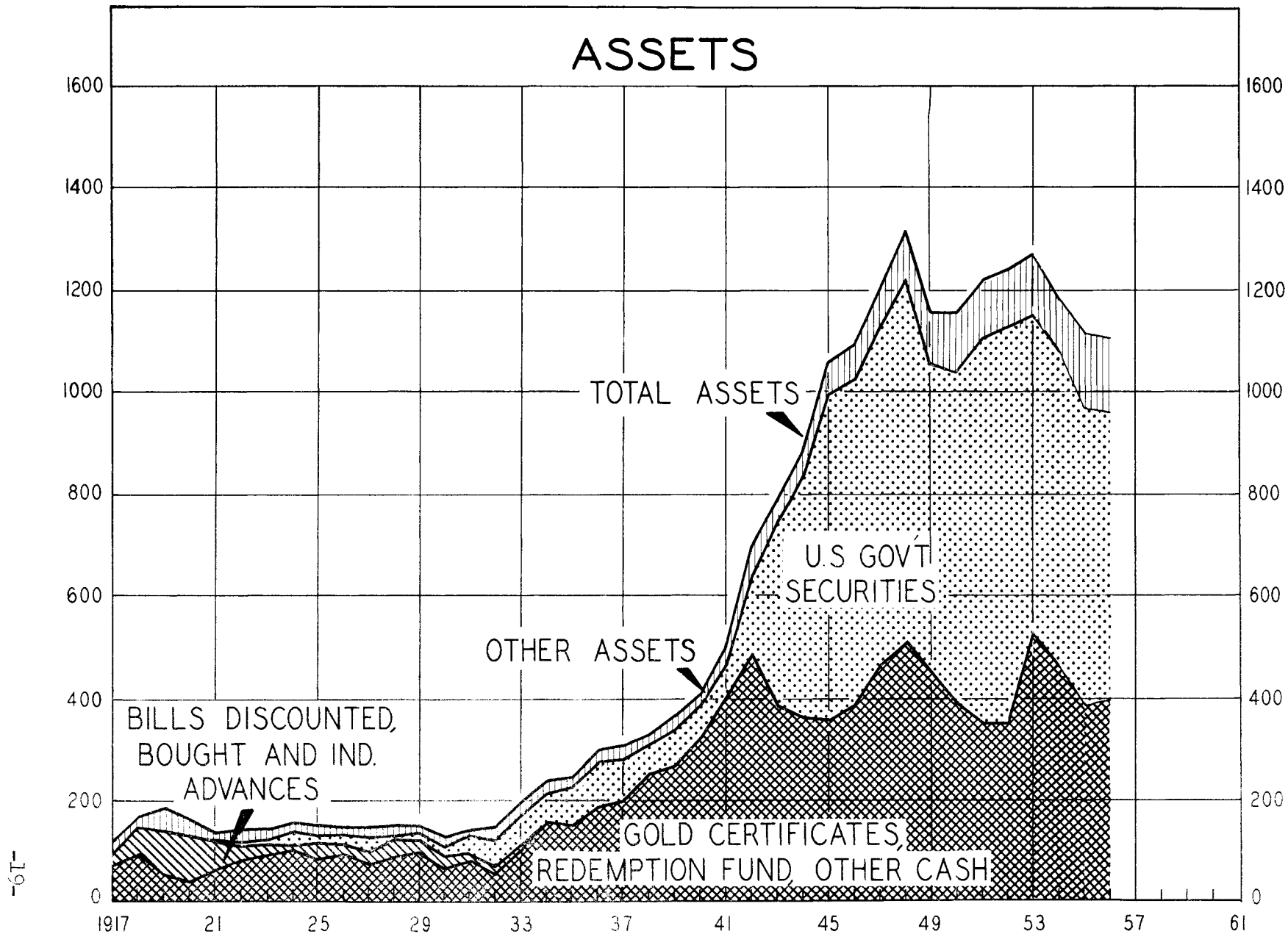
The South Dakota experience reflected in part the fact that--farm incomewise--that state fared least well of any in the district last year largely because of drouth conditions. In the rest of the district, cash farm income was up and other business continued at the prosperous level of 1955. Of course, the reversal of the previous decline in farm product prices was helpful to deposits at country banks in particular.

Percentagewise, country bank deposits (55 per cent of the member bank total) were up 3.5 per cent while city banks reported a 2.3 per cent gain. Country bank loans were up 7 per cent while loans at city banks rose

MILLION DOLLARS

MILLION DOLLARS

ASSETS



-19-

COMPARATIVE STATEMENT OF ASSETS

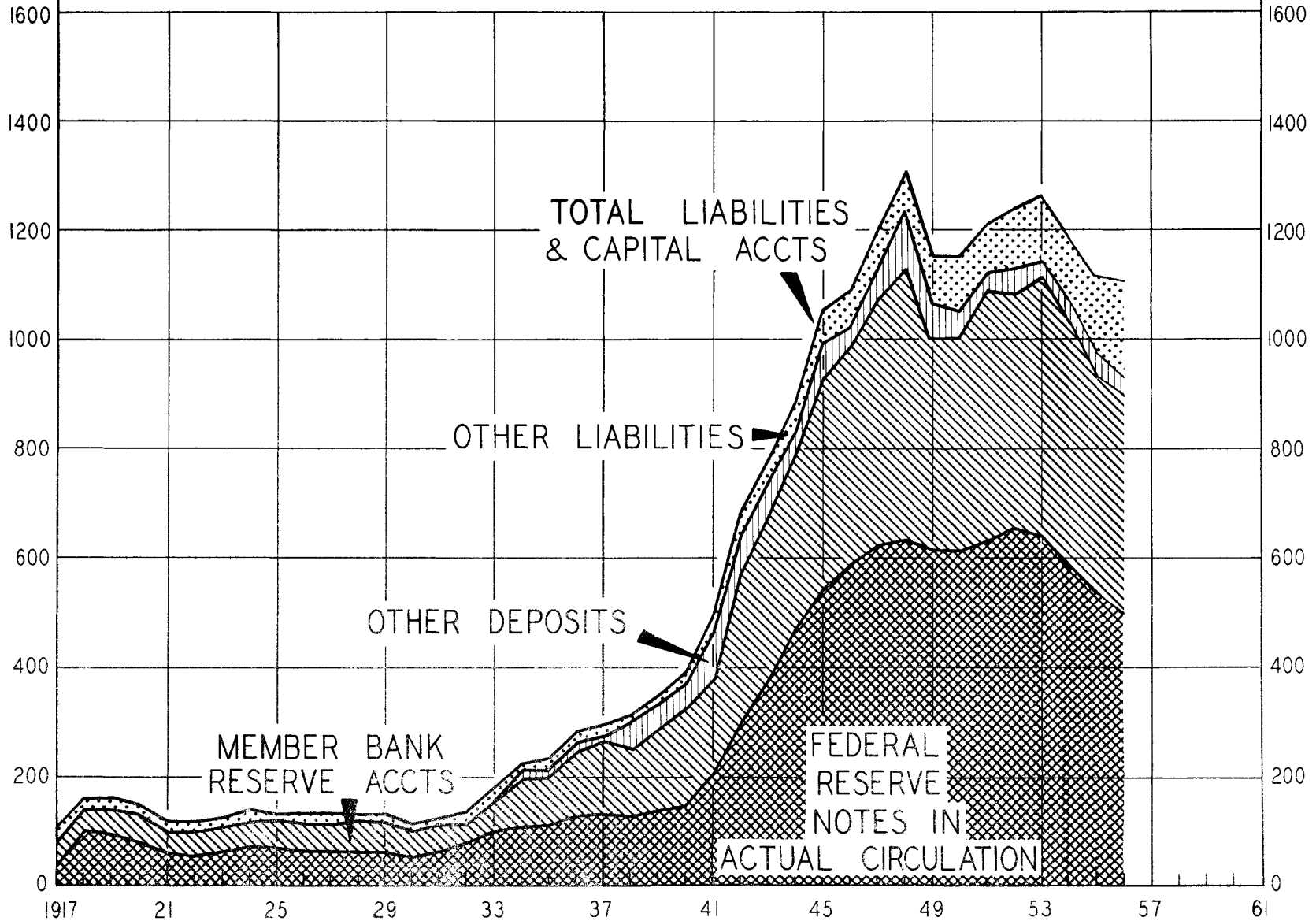
MINNEAPOLIS AND HELENA BRANCH COMBINED
(thousands of dollars)

	<u>12/31/56</u>	<u>12/31/55</u>	<u>Change from 12/31/55</u>
<u>Assets:</u>			
Cash Reserves:			
Interdistrict Settlement Fund	201,393	189,279	+ 12,114
Gold Certificates with F.R. Agent Redemption Fund - F.R. Notes	150,000	150,000	-
	<u>22,952</u>	<u>23,729</u>	<u>- 777</u>
Total Gold Certificate Reserves	374,345	363,008	+ 11,337
F.R. Notes of Other F.R. Banks	14,377	9,587	+ 4,790
Other Cash	9,319	7,908	+ 1,411
Bills Discounted	3,530	1,355	+ 2,175
Foreign Loans on Gold	625	25	+ 600
Industrial Loans	42	60	- 18
U. S. Government Securities:			
Bills	38,879	36,414	+ 2,465
Certificates of Indebtedness	246,937	143,476	+103,461
Notes	206,759	343,283	-136,524
Bonds	<u>63,283</u>	<u>67,895</u>	<u>- 4,612</u>
Total U. S. Government Securities	555,858	591,068	- 35,210
Due from Foreign Banks	1	1	
Uncollected Items:			
Transit Items	131,918	132,375	- 457
Exchanges for Clearinghouse	2,671	4,010	- 1,339
Other Cash Items	<u>1,356</u>	<u>1,278</u>	<u>+ 78</u>
Total Uncollected Items	135,945	137,663	- 1,718
Bank Premises	6,257	3,688	+ 2,569
Less Reserve	<u>1,538</u>	<u>1,494</u>	<u>+ 44</u>
Bank Premises - Net	4,719	2,194	+ 2,525
Miscellaneous Assets:			
Fiscal Agency expense, reimbursable	207	188	+ 19
Interest Accrued	5,377	3,492	+ 1,885
Premium on Securities	45	89	- 44
Deferred Charges	49	34	+ 15
All Other Assets	<u>8</u>	<u>2</u>	<u>+ 6</u>
Total Miscellaneous Assets	5,686	3,805	+ 1,881
Total Assets	<u>1,104,447</u>	<u>1,116,674</u>	<u>- 12,227</u>

MILLION DOLLARS

MILLION DOLLARS

LIABILITIES



COMPARATIVE STATEMENT OF LIABILITIES

MINNEAPOLIS AND HELENA BRANCH COMBINED (thousands of dollars)

	<u>12/31/56</u>	<u>12/31/55</u>	Change from <u>12/31/55</u>
<u>Liabilities:</u>			
Federal Reserve Notes in Circulation	498,236	531,709	-33,473
<u>Deposits:</u>			
Member Bank - Reserve Accounts	398,117	405,586	- 7,469
U. S. Treasurer - General Account	22,651	25,108	- 2,457
Foreign	7,400	9,650	- 2,250
Nonmember Bank - Clearing Accounts	1,460	457	+ 1,003
Officers' Checks	194	56	+ 138
Other Deposits	<u>2,182</u>	<u>5,180</u>	<u>- 2,998</u>
Total Deposits	432,004	446,037	-14,033
<u>Deferred Availability Items:</u>			
U. S. Treasurer - General Account	5,615	7,094	- 1,479
All Other	<u>136,982</u>	<u>101,674</u>	<u>+35,308</u>
Total Deferred Availability Items	142,597	108,768	+33,829
<u>Miscellaneous Liabilities:</u>			
Unearned Discount	2	2	
Discount on Securities	238	233	+ 5
Sundry Items Payable	342	166	+ 176
Suspended Credits	<u>13</u>	<u>10</u>	<u>+ 3</u>
Total Miscellaneous Liabilities	595	411	+ 184
 Total Liabilities	 1,073,432	 1,086,925	 -13,493
<u>Capital Accounts:</u>			
Capital Stock Paid In	7,182	6,861	+ 321
Surplus Fund - Section 7	18,520	17,586	+ 934
Surplus Fund - Section 13b	1,073	1,073	-
Reserve for Contingencies	<u>4,240</u>	<u>4,229</u>	<u>+ 11</u>
Total Capital Accounts	31,015	29,749	+ 1,266
 Total Liabilities & Capital Accounts	 1,104,447	 1,116,674	 -12,227

almost 15 per cent.

Our member banks face the new year with more loans relative to deposits than at any time in the past quarter century. While this development has benefited bank earnings, it has also reduced the amount of liquid assets in banks. Problems of bank liquidity are likely to occupy more attention of bankers in the future than in the recent past--particularly if loan trends of 1956 continue unchanged. The table below indicates the ratio of loans to deposits at member banks in the various district states and at the same banks classified according to city or country location.

Ratio of Loans to Deposits at District Member Banks
12-26-56

Michigan	38%
Minnesota	49%
Montana	39%
North Dakota	42%
South Dakota	42%
Wisconsin	38%
District	45%
City	51%
Country	41%

FEDERAL RESERVE BANK OF MINNEAPOLIS

Despite a reduction in the volume of borrowing at this bank during 1956, earnings from loans exceeded a million dollars. This was an increase of almost 20 per cent over 1955 earnings from loans and was produced by an increase in the discount rate from 2.5 per cent to 3 per cent in April of 1956.

The average daily volume of borrowing fell 17 per cent in 1956 from the level of the previous year. Even so, borrowings in 1956 were second largest for the postwar decade. The average daily volume of borrowings from the Federal Reserve Bank of Minneapolis is shown in the table below for each

of the past ten years.

	\$10 million
1947	2
1948	2
1949	5
1950	11
1951	16
1952	27
1953	7
1954	42
1955	35
1956	

Earnings from securities also advanced in 1956 despite a reduction in the average daily volume held. This development reflects the replacement of maturing securities with others yielding higher rates of interest. Market yields on government securities of all maturities have been moving up since mid-1954.

While gross earnings of the bank rose \$3.6 million in 1956, expenses were up \$.8 million with the result that net current earnings were up \$2.8 million.

A 5.7 per cent addition to the amount of dividends paid by the bank was required by the issue of additional shares. The paid-up portion of these shares is held by the member banks in an amount equal to 3 per cent of their capital and surplus.

The amount paid to the U. S. Treasury as interest on our Federal Reserve Notes outstanding amounted to 90 per cent of the bank's net earnings after payment of dividends. The remainder was added to surplus.

DEPARTMENTAL AND OTHER COMMENTS

ACCOUNTING

Reserves

Reserve requirements in 1956 remained unchanged as shown by the table below.

<u>Bank Classification</u>	<u>Net Demand Deposits</u>	<u>Time Deposits</u>
Country	12%	5%
Reserve City	18%	5%
Central Reserve City	20%	5%

On April 13, the Board of Governors approved the action of the Federal Reserve Bank of Minneapolis in increasing the discount rate from 2.50% to 3.00%. As penalties for deficiencies in reserves are computed at 2% above the current discount rate, this increase raised the penalty rate from 4.50% to 5.00%.

Penalties for deficiencies in reserves assessed at the Head Office during the year 1956 showed an increase of 49.5% in amount and 16.3% in number. Penalties assessed at the Helena Branch showed a decrease of 8.8% in amount and 22.9% in number.

Penalties for deficiencies in reserves at the Head Office which were waived decreased 3.4% in amount and remained substantially the same in number and at the Helena Branch waived penalties decreased 51.1% in amount and 22.4% in number.

71.1% of the amount and 47.8% of the number of all penalties waived for the year were waived under the Board's rule which allows a deficiency in one period to be offset by excess in the following period, provided that such deficiency does not exceed 2% of the bank's required reserve. The large reserve city banks in the Twin Cities and Helena account for 56.2% of the amount and 19.8% of the number of penalties waived under this rule.

25.2% of the amount and 17.6% of the number of penalties waived were waived under the rule which permits a penalty to be waived for a deficiency of not more than 5% of a member bank's required reserve provided that a penalty has not been waived under that rule within a two-year period.

Only 3.7% of the amount and 34.6% of the number of all penalties waived for the year were waived under the rule which applies to penalties not in excess of \$5.00.

During 1956, 90 banks were penalized for a total of 171 times compared with 91 banks for 175 times in 1955.

The following is a comparative report by states of penalties for deficiencies in reserves during 1956 and 1955.

	<u>Penalties Assessed</u>				<u>Penalties Waived</u>				<u>Banks Affected</u>			
	<u>1956</u>		<u>1955</u>		<u>1956</u>		<u>1955</u>		<u>Assessed</u>		<u>Waived</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
Michigan	13	\$ 470.36	18	\$ 688.51	35	\$ 322.78	34	\$ 394.19	6	11	19	20
Minnesota	55	2,251.35	42	1,156.75	175	4,488.74	178	5,219.86	32	27	84	89
No. Dakota	7	370.85	12	526.47	34	569.35	26	442.36	8	6	14	16
So. Dakota	18	767.72	13	415.27	37	774.20	39	582.78	4	9	20	26
Wisconsin	14	675.47	7	247.14	23	331.64	25	72.87	9	4	26	13
Head Office												
Totals	107	\$4,535.75	92	\$3,034.14	304	\$6,486.71	302	\$6,712.06	59	57	163	164
Helena												
Branch	64	7,109.18	83	7,794.88	66	982.88	85	2,012.76	31	34	39	44
Combined	171	\$11,644.93	175	\$10,829.02	370	\$7,469.59	387	\$8,724.82	90	91	202	208

Wire Transfer Division

On April 12, 1956 we started using an improved method for sending and receiving (a) transfers of funds, (b) transfers of securities, and (c) allotment transfers of securities over the leased wire system.

The new procedure provides for the transmission of transfer messages in clear language instead of code and for automatic preparation as a by-product of transmission at both the sending and receiving points of forms and entry tickets.

Because of the new procedure, the number of telegrams coded by us decreased 66% for the year and the number of telegrams decoded decreased 60%. The number of words sent over the leased wire increased 37%.

There was a general volume increase of 10% for telegrams sent and received and transfers of funds handled set a new record for number and amount. The bulk of the increase in transfers of funds was reflected in transfers from other districts resulting in a net dollar gain to the district of \$1.8 billion.

The tables on the following page reflect a comparison of activities in the Wire Transfer Division for the year 1956 with 1955.

Transfer of Funds
Dollar Totals
(000 Omitted)

	<u>1956</u>	Change from <u>1955</u>
Transfers to other Federal Reserve districts	9,240,986	+1,578,871
Transfers from other Federal Reserve districts	11,009,722	+2,304,639
Intra-district transfers	<u>2,743,715</u>	<u>- 133,827</u>
	22,994,423	+3,749,683

Number of Transfers Made

Transfers to other Federal Reserve districts	19,569	+1,440
Transfers from other Federal Reserve districts	22,240	+3,726
Intra-district transfers	<u>12,576</u>	<u>- 427</u>
	54,385	+4,739

Number of Telegrams Sent

Private Wire	33,270	+3,123
Western Union	3,021	- 7
TWX	<u>4</u>	<u>0</u>
	36,295	+3,116

Number of Telegrams Received

Private Wire	41,650	+5,125
Western Union	4,273	- 867
TWX	<u>855</u>	<u>- 159</u>
	46,778	+4,099

Number of telegrams coded by us	7,969	-15,897
Number of telegrams decoded by us	10,520	-15,880

CHECK COLLECTION

The 108.5 million items handled by this department in 1956 were 6.3% more than those handled in 1955, surpassing volume of all previous years. The amount of \$30 billion was also an increase of 6.3% over the dollar amount handled in 1955 and was the highest total in the history of the department.

The table below shows the number and dollar amounts of the items processed during 1956 as compared with 1955:

	<u>Volume</u> (000 Omitted)		<u>No. of Items</u> <u>Inc. or Dec.</u>	<u>Per cent of</u> <u>Inc. or Dec.</u>
	<u>1956</u>	<u>1955</u>		
Twin City Checks	22,036	15,340	+6,696	+43.7%
Country Checks	59,278	60,886	-1,608	- 2.6
Government Checks				
Paper	980	1,157	- 177	-15.3
Card--Our District	11,237	10,562	+ 675	+ 6.4
Card--Other Feds	4,952	4,276	+ 676	+15.8
Return Items	805	757	+ 48	+ 6.3
Postal Money Orders	<u>9,255</u>	<u>9,151</u>	<u>+ 104</u>	<u>+ 1.1</u>
	108,543	102,129	+6,414	+ 6.3%

	<u>Dollar Amount</u> (000 Omitted)		<u>Dollar Amount</u> <u>Inc. or Dec.</u>	<u>Per cent of</u> <u>Inc. or Dec.</u>
	<u>1956</u>	<u>1955</u>		
Twin City Checks	16,360,374	15,375,574	+ 984,800	+ 6.4%
Country Checks	10,636,812	10,154,620	+ 482,192	+ 4.7
Government Checks				
Paper	1,322,803	1,135,535	+ 187,268	+16.5
Card--Our District	930,209	849,149	+ 81,060	+ 9.5
Card--Other Feds	494,108	450,625	+ 43,483	+ 9.6
Return Items	108,331	104,996	+ 3,335	+ 3.2
Postal Money Orders	<u>152,548</u>	<u>149,899</u>	<u>+ 2,649</u>	<u>+ 1.8</u>
	30,005,185	28,220,398	+1,784,787	+ 6.3%

Country checks decreased 1.6 million in volume despite the general increase in checks of all classifications. This was due to the fact that during the entire year of 1956 checks drawn on certain Minneapolis suburban banks were handled and counted as Twin City checks. This method of handling checks drawn on

thirteen suburban banks located just outside of Minneapolis began on October 1, 1955. This accounts for part of the increase of 6.7 million of Twin City checks processed during 1956 compared to 1955.

On three different days during 1956 the department handled more than one half million checks of all classifications with the highest record of 536,746 processed on October 8, 1956. This total broke the previous all-time record of 514,269 set on December 7, 1955.

A record of 141,607 Twin City checks were handled on November 19, 1956 surpassing the previous years' high of 128,170 handled on December 19, 1955. The 1955 record was first broken on February 20, 1956 when 138,921 Twin City items were processed.

Another new record was set in 1956 when 102,928 Treasury Punch Card Checks drawn on other Federal Reserve banks were processed on September 10th. The former years' record of 83,550 items handled on August 8, 1955 was also broken on May 7, 1956 when 94,448 items were processed.

On August 1, 1956, the Treasury Department began making use of electronic equipment for processing the payment and reconciliation of government checks and this equipment will ultimately be used for processing all government checks. The conventional government paper checks are being replaced with punch card checks. Government Disbursing Offices which issue relatively few items use card checks prepunched as to serial and symbol number, and the Federal Reserve banks key punch the amounts in such items before forwarding to the Treasury Department. The Government Disbursing Offices which issue a large volume of items use punch card checks, prepunched as to serial and symbol number, but before forwarding to the payees, also punch the month and year of issue and amounts in the items. All Disbursing Offices will issue government checks drawn on the Treasury of the United States without being payable through a designated Federal Reserve bank and upon completion of the conversion program approximately 175 million government checks which have heretofore been handled annually by two Federal Reserve Offices (one

receiving the items for deposit and the one through which payable) will be handled only by the office at which deposited.

The Treasury Department has heretofore furnished without cost the tabulating equipment for handling government checks to Federal Reserve bank head offices, and the rental for such equipment required under the new program will be paid for by the Federal Reserve banks.

As government checks hereafter will not be payable through a designated Federal Reserve bank, the reserve banks will be relieved of the task of sorting government checks by symbol and serial number, checking items received for stop payment orders, signatures, etc., and preparing statements of items paid. Approximately six million items payable through this bank were received in 1956 from other Federal Reserve banks and branches out of a total of 11 million such items issued payable through this bank. It is expected that the conversion to electronic accounting of government checks will be completed about July 1, 1957.

As in former years the department continued to check on delayed remittances for cash letters and remittances in other than immediately available funds in an effort to encourage good banking practices and reduce float.

The department has continued to operate on a 24-hour basis. Checks are functioned continuously from 10:30 p.m. Sunday through 6:00 p.m. Saturday of each week. The night shift now operates six nights, Sunday through Friday, each employee working five nights with a different night off each week.

Postmasters' Deposits

This bank has been designated by the Treasury Department as a depository for surplus funds of postmasters since July 2, 1954. The deposits include checks, savings stamp albums, money orders and currency, all of which are processed by this department after the currency has been removed.

From July 2, 1954 through December 31, 1954 deposits were received from postmasters located within the geographical limits of the ninth district. From January 1, 1955 through September 30, 1955 deposits were received only from postmasters in Minnesota, Montana, North Dakota and South Dakota. Since October 1, 1955 deposits have been received from postmasters located in the ninth district and also from postmasters located in that portion of Wisconsin assigned to the Seventh Federal Reserve District.

The table below indicates the number and dollar amounts of deposits processed during 1956 as compared to 1955:

	<u>Volume</u>		<u>No. of Deposits Inc. or Dec.</u>	<u>Per cent of Inc. or Dec.</u>
	<u>1956</u>	<u>1955</u>		
Total Number of Deposits	372,218	246,016	+126,202	+51.3%
Number of Deposits Contain- ing Cash	176,581	110,700	+ 65,881	+59.5%

	<u>Dollar Amount (000 Omitted)</u>		<u>Dollar Amount Inc. or Dec.</u>	<u>Per cent of Inc. or Dec.</u>
	<u>1956</u>	<u>1955</u>		
Total Amount of Deposits	376,995	209,048	+167,947	+80.3%
Total Amount of Cash	37,944	24,689	+ 13,255	+53.7%

Volume and dollar amounts increased sharply because 1956 represented the first full year that deposits were handled from the expanded territory.

Check Routing Symbol

The use of the check routing symbol increased again in 1956 according to the annual survey made as part of a system-wide study which indicated that 97.3% of checks drawn on par banks in this district carried the symbol.

The percentage of use of the symbol by ninth district banks is shown by states in the table on the following page.

Michigan	96.7	North Dakota	97.8
Minnesota	97.3	South Dakota	98.6
Montana	95.6	Wisconsin	98.7

Check Standardization Program

The campaign to improve check design continued during 1956. Several National Association of Bank Auditors and Comptrollers groups were addressed and slides shown to them by our two representatives. These two representatives also made numerous visits to business firms and banks. Legislation affecting municipal disbursement procedure has now been successfully concluded in Minnesota, North Dakota, South Dakota and Wisconsin. It is anticipated that similar legislation will be presented to the Michigan Legislature in 1957. Work was also done early this year in Montana to show the need for similar municipal legislation in that state but it had to be postponed for lack of sponsorship.

CURRENCY AND COIN

There appears to be a general increase in the work handled by the Currency and Coin Department this past year with one exception, and that is the wrapped coin unit. The shipments of currency and coin to member banks as measured in dollar value were approximately 10% higher than those for 1955. Shipments of currency and coin from member banks were up 15% from a year ago. The dollar volume of out-going coin shipments increased 6% and incoming shipments indicated an increase of approximately 5% as compared with a year ago.

Our Currency Sorters counted and sorted better than 3 1/2 million more bills during the year of 1956 than they did during the year of 1955. The number of coins wrapped showed a decrease of 6% and a decrease of 6% in dollar volume compared with the year of 1955. The decrease in our wrapping operation is partly due to the fact that on December 30, 1955, we had considerable quantities of wrapped coin on hand in anticipation of possible delays, because of the building expansion and remodeling program, and partly due to other inconveniences experienced by our coin wrapping unit during the expansion program. This is the first time after showing a continuous increase for nine straight years that a decrease was experienced in this activity.

In July, 1954, it will be remembered, that the Federal Reserve Act was amended to permit Federal Reserve Banks to pay out the notes of other Federal Reserve Banks. The note circulation of this bank on June 30, 1954, just prior to the passage of the legislation amounted to 622 million dollars. At the end of 1954 our note circulation had declined contraseasonally to 584 million dollars. On December 31, 1955, it was down to 532 million dollars. On December 31, 1956, a further decline was noted, the amount being 498 million dollars.

Meanwhile, cash on hand in our Currency and Coin Department reached a new high of approximately 71 million dollars at the end of 1956 as compared with

63 million dollars in 1955. Approximately 5 million dollars of our cash on hand is due to an increase in our fit 9-1 notes, the total of which was 36.5 million dollars in 1955 and 41 million dollars in 1956.

The building expansion and remodeling program which began June 1, 1955, has not affected the Currency and Coin Department to any great extent, except as previously mentioned with respect to wrapped coin.

The current year showed a 45% decrease in the amount of coin received from U. S. Mints from the previous year, which was caused by the mints shipping rather sizable shipments the later part of 1955. We experienced no trouble meeting our demand for coin this year, as there were ample stocks of all denominations at all times.

A very unusual trend has been noticed the past few years with respect to \$50 bills. The demand for these bills has been consistently dropping off. We have on hand at the present time \$3,500,000 fit-for-use \$50 bills. It is anticipated that a good portion of these bills, as well as other large denominations, of which we have an excess of our current needs, will be retired with the Federal Reserve Agent very shortly.

There was quite an increase in the volume of currency handled in the post office depository division during the year. There was an increase of 34% in the number of deposits received and an increase of 55% in dollar value received during the year compared with 1955. The reason for this large increase in the number of deposits and in dollar value is as follows: On January 1, 1955, post offices in the upper peninsula of Michigan and the ninth district portion of Wisconsin discontinued sending their deposits to us. This left us with only the post office in North Dakota, South Dakota, Montana, and Minnesota, as depositors, and considerably reduced our work. On October 1, 1955, we not only got back all of the upper Michigan and Northwestern Wisconsin post offices, but also added all of the post offices in the seventh district portion of Wisconsin. This is the first full year of operation since we were assigned the new area in October of 1955.

During December of this year, we received two new Federal Bill Counting machines to replace two worn out machines. No other type of equipment was acquired during the year.

The rate of premium on Canadian currency reached a high of 4% during the later part of 1956.

Currency Paid Out by Denominations to Member Banks

	<u>1956</u>	<u>1955</u>
1's and 2's	\$ 29,636,000	\$ 31,258,000
5's	48,643,000	45,255,000
10's	130,376,000	119,042,000
20's	128,842,000	111,841,000
50's	5,539,000	4,887,000
100's	16,451,000	15,454,000
500's	734,000	596,000
1,000's	936,000	909,000
5,000's	15,000	Ø
10,000's	40,000	40,000
	<u>\$361,212,000</u>	<u>\$329,282,000</u>

Outgoing Shipments
for Account of Member Banks

	<u>1956</u>		<u>1955</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Currency paid out	19,438	\$361,212,000	18,648	\$329,282,000
Currency shipped to Helena Branch	101	12,754,000	78	11,800,000
Coin paid out	<u>14,341</u>	<u>14,101,000</u>	<u>14,704</u>	<u>13,267,000</u>
	33,880	\$388,067,000	33,430	\$354,349,000

Incoming Shipments
for Account of Member Banks

	<u>1956</u>		<u>1955</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Currency	20,745	\$440,244,000	20,946	\$380,868,000
Coin	<u>4,369</u>	<u>12,619,000</u>	<u>4,398</u>	<u>12,050,000</u>
	25,114	\$452,863,000	25,344	\$392,918,000
Fit-for-use \$1's received from Helena Branch	25	1,710,000	13	1,020,000
Postmasters' deposits received	<u>198,114</u>	<u>38,236,281</u>	<u>147,924</u>	<u>24,690,644</u>
Total Currency & Coin Received	223,253	\$492,809,281	173,281	\$418,628,644

Number & Amount of Pieces Handled

Currency

	<u>1956</u>		<u>1955</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Bills received & counted	64,029,945	\$436,268,200	60,735,350	\$389,388,910
Bills rehandled	4,306,780	72,260,400	3,707,389	67,831,430
Bills hand verified	<u>21,611,715</u>	<u>242,222,475</u>	<u>18,058,323</u>	<u>201,926,237</u>
	89,948,440	\$750,751,075	82,501,062	\$659,146,577

Coin

	<u>1956</u>		<u>1955</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Coins received & counted	129,940,966	\$ 12,465,475	121,668,777	\$ 11,569,799
Coins rehandled	900,400	130,500	768,250	81,725
Coins wrapped	<u>97,216,000</u>	<u>7,699,000</u>	<u>102,729,000</u>	<u>8,223,950</u>
	228,057,366	\$ 20,294,975	225,166,027	\$ 19,875,474

Amount of Coin Received
From U.S. Mints

<u>1956</u>	<u>1955</u>
\$ 1,253,000	\$ 2,274,500

Number of Bills Redeemed

<u>1956</u>	<u>1955</u>
28,732,342	30,421,207

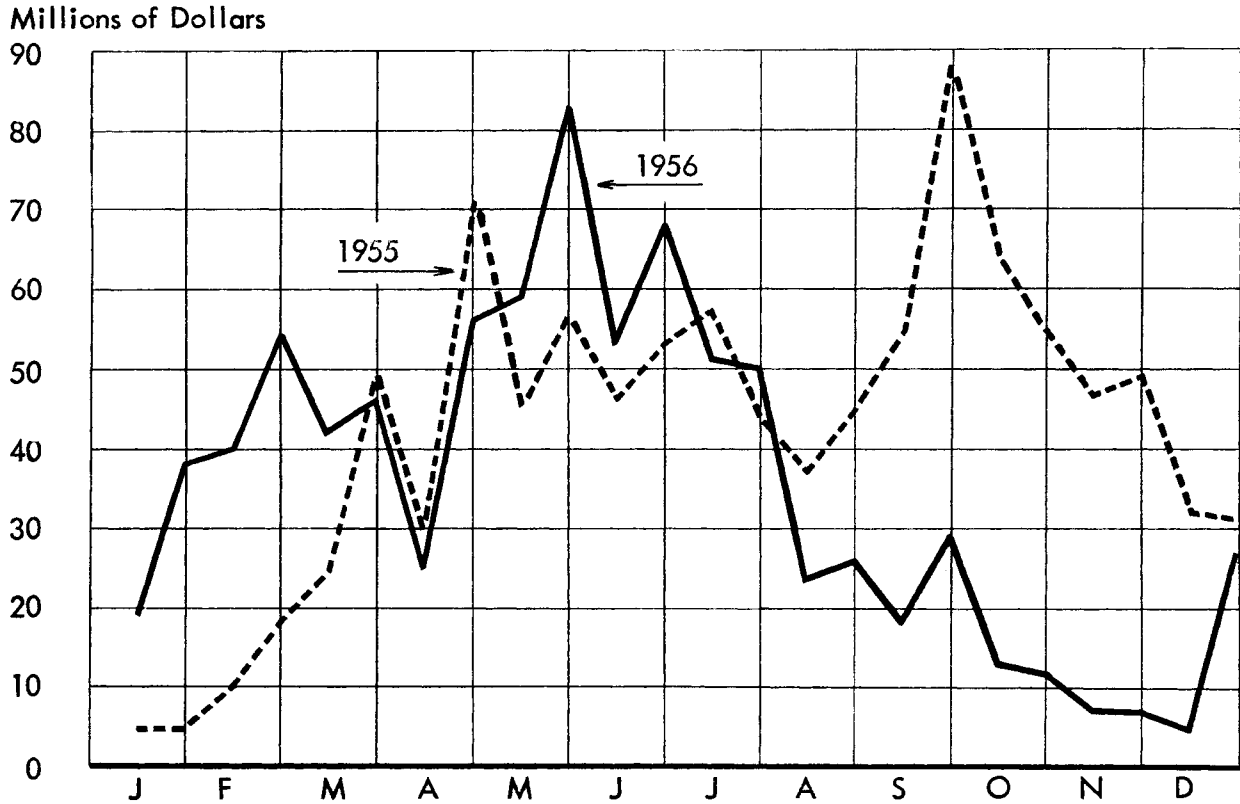
DISCOUNT AND CREDIT

Discounting activity in the Ninth District remained at a relatively high level during the first part of 1956. The restrictive monetary policy of the Federal Reserve System and the strong demand for loans at commercial banks were responsible for continued borrowing during the first seven months of 1956 at the rapid pace of 1955. This trend was reinforced by the seasonal outflow of deposits in the spring, and by the decline of bank liquidity resulting from the lowering of bond prices.

Discount rates were raised by all Federal Reserve banks in April in an attempt to restrict credit expansion and consequent inflationary pressures. This bank raised its discount rate from 2 1/2 percent to 3 percent while ten of the Federal Reserve Banks raised rates to only 2 3/4 percent. The 1/2 percent increase did not prove to be excessive, however, and the other Banks also went to 3 percent shortly after the steel strike ended in August.

Discount activity during 1956 divides itself into two periods, January-July and August-December. Borrowing began the year at a high level and continued to exceed the sizeable figures of a year earlier until the end of July, with a few exceptions (see Chart 1 on following page). Average daily borrowings for the January-July period in 1956 equaled \$48.8 million, while borrowings for the comparable period in 1955 were \$36.6 million. Peak levels were reached in May and June, contrasted to 1955 when the spring peak occurred in April. (This is another example of the situation in which borrowings rise rapidly shortly after the discount rate has been raised, despite the higher cost incurred.)

Chart 1
BORROWINGS OF MEMBER BANKS IN THE NINTH DISTRICT
 (Semi-monthly Average of Daily Figures)

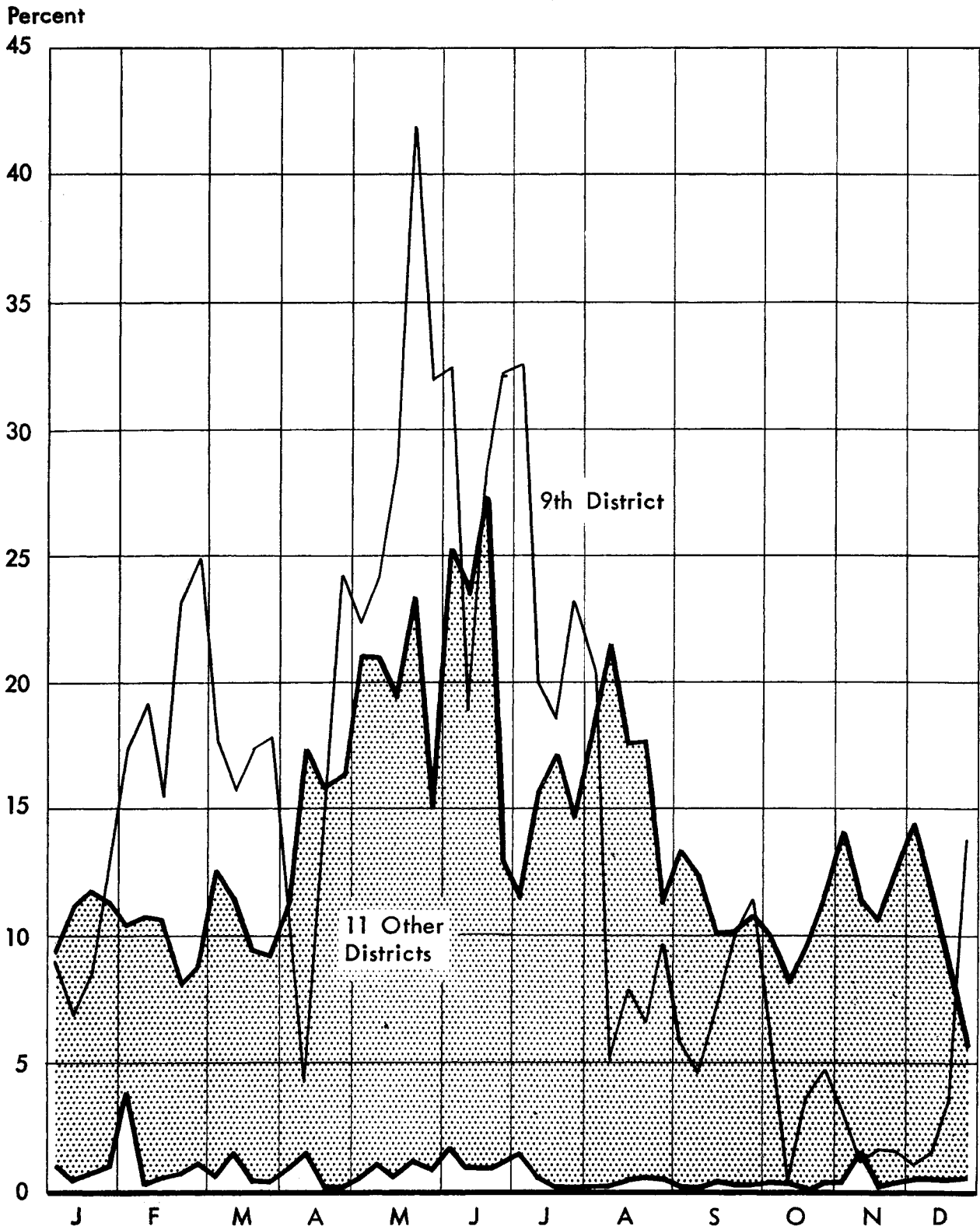


The large amount of borrowing by reserve city banks during this period was particularly striking (see Chart 2 on the following page). On the basis of the ratio of borrowings to required reserves for these banks, the Ninth District was far above the other eleven districts from January through July except for a few scattered weeks. Several of the Twin Cities banks were both large and consistent borrowers being in debt to the Federal Reserve on 60-90 per cent of the days involved.

Although the borrowings of the country banks relative to required reserves for all country banks averaged much lower than those of reserve city banks, the general average hides certain widely varying cases. For example, if this ratio is based on required reserves of borrowing banks only, it shows that those country

Chart 2

RATIO OF BORROWINGS TO REQUIRED RESERVES - RESERVE CITY MEMBER BANKS
Ninth District Compared With High and Low of 11 Other Districts
(by weekly reserve periods)



banks were borrowing 28.7 percent of their required reserves for the period January through July. Some individual banks, in turn, showed borrowings far in excess of this average.

A dramatic shift took place after August 1. Advances to member banks in this district showed sharp declines both absolutely and relative to the national average. These low levels of borrowing provide a significant contrast to the high levels which prevailed in the fall of '55. (Chart 1) During the August-December period, the ratio of borrowings to required reserves averaged only 4 percent in this district which was slightly below the national average. The abnormally large seasonal increase in deposits during the fall of '56 provides a major explanation for the sharp decline in borrowings. During the last two weeks of December, a sharp upturn in discount activity was experienced.

Statistical Summary:

Total Amounts Borrowed	\$3,698,667,000	\$4,156,277,000
From Minneapolis	3,477,100,000	3,929,235,000
From Helena	221,567,000	227,042,000
Total Number of Banks Borrowing	106	101
From Minneapolis	84	80
From Helena	22	21

(1) With a few exceptions, all advances were secured by direct obligations of the United States. These exceptions included: advances to three banks, aggregating \$38,740,000 secured by eligible paper; and advances to three banks, aggregating \$2,578,000 made on collateral other than government obligations or eligible paper under Section 10 (b) of the Federal Reserve Act.

(2) Our bank's participation in foreign loans on gold during the year totaled \$1,900,000.

(3) No applications for industrial loans under Section 13b of the Federal Reserve Act were received during the year. The total amount of industrial advances (current) outstanding on our bank's books on December 31, 1956, was \$42,349.90. The borrowers were (a) a packer and shipper of fresh vegetables and (b) a wholesale and retail grocery business.

(4) Two applications for guaranteed loans under Regulation V totaling \$300,000 were received during 1956, one was approved and the other is under consideration. One guarantee agreement for \$800,000 was executed.

(5) In 1956, advances totaling \$39,384,701.93 were made by financing institutions under Regulation V: \$2,800,000 was guaranteed by the Department of the Air Force; \$1,329,812.45 by the Department of the Army; \$35,245,000 by the Department of the Navy; and \$9,889.48 by the Atomic Energy Commission.

Loans actually outstanding under guarantee agreements at the year end aggregated \$690,000 for the Navy (guaranteed portion \$621,000); and \$4,292,670.35 for the Atomic Energy Commission (guaranteed portion \$4,078,036.83).

DUPLICATING

The two more efficient methods of reproduction, mimeographing and offset duplicating, show substantial increases over 1955. The Mimeograph had a total run for the year of 104,135 more than the previous year, and the production of the offset duplicators was increased by more than 2,000,000. This increase was partly due to the acquisition of a new A B Dick duplicating machine the first of October which made the higher production figure possible.

Multigraph production continued to decline because much of the work formerly done on this machine can now be done more efficiently on the offset duplicators. The amount of work done by the Ditto and Photostat machines remained about the same and there was no material change in the volume of work performed by the Addressograph section.

	<u>1956</u>		<u>1955</u>	
	<u>Forms</u>	<u>Total Run</u>	<u>Forms</u>	<u>Total Run</u>
Ditto	489	40,070	580	42,619
Mimeograph	2,286	541,070	2,161	436,935
Multigraph	593	370,355	898	545,998
Offset Duplicator (Multilith-A B Dick machine)	1,685	6,390,965	1,452	4,329,956
Photostat		<u>3,888</u>		<u>3,997</u>
	<u>5,053</u>	<u>7,346,348</u>	<u>5,091</u>	<u>5,359,505</u>

EXAMINATION

There were at the close of business December 31, 1956, one hundred twenty-nine State member banks in this district. A regular examination of each of the State member banks was made, and a second examination was made of four of those banks. One examination was made in connection with an application of a State bank for membership in the Federal Reserve System.

As of the end of the year, thirteen State member banks were exercising trust powers. Nine other State member banks are not exercising their trust powers. Sixty-three national banks held permits to exercise full or limited trust powers.

The examinations by this department in the various states were as follows:

	<u>State Banks</u>	<u>Holding Company Affiliates</u>
Michigan	14	-
Minnesota	31	1
Montana	46	1
North Dakota	2	-
South Dakota	26	-
Wisconsin	<u>15</u>	<u>-</u>
	134	2

There are four holding company affiliates which are residents of this district. They are Bank Shares Incorporated, First Bank Stock Corporation, Northwest Bancorporation, all of Minneapolis, Minnesota, and Montana Shares, Incorporated, Havre, Montana. It is the policy to examine the holding company affiliates biennially. In line with that policy, an examination was made of Northwest Bancorporation and Montana Shares, Incorporated during 1956, Bank Shares Incorporated and First Bank Stock Corporation having been examined in 1955.

One application for membership in the Federal Reserve System was received from a State bank, and the bank was admitted to membership.

All examination reports, both State and National, were analyzed on comparative analysis sheets, a copy being furnished to the president of this bank and to the officer in charge of the discount department, and to the Helena Branch for Montana member banks. These analyses include summary statements as to the management, condition, etc., of the bank.

Five hundred ninety-five reports were received from the Chief National Bank Examiner's office. The cost of these reports was \$5,950.00.

Sixty-seven duplicate copies of reports of examination of Montana national banks were received from the Chief Examiner's office, and the cost of these additional copies was \$335.00.

In addition, thirty separate reports of examination of trust departments were received at a cost of \$150.00.

The number of 1956 reports of examination received from the various State Banking Departments in the Ninth Federal Reserve District of State member banks examined independently by them was as follows:

Minnesota	26
North Dakota	1
Wisconsin	3

Four calls for reports of condition of each member bank were issued. All member banks were also required to submit semi-annual reports of earnings and dividends. The condition and related reports, together with reports of earnings and dividends, were received, checked, and recorded.

A charter was issued to one bank, application for which had been referred to us by the Board of Governors of the Federal Reserve System in 1953.

There were two 1955 applications which had been referred to us by the Board of Governors that were pending at the end of that year. During 1956 a charter was issued to one bank, and the other application, which had preliminary approval by the Comptroller of the Currency during 1955, was still pending at the end of 1956.

Six applications for national bank charters were referred to us during 1956 by the Board of Governors for investigation and recommendation. A charter was issued to one bank, two applications were approved by the Comptroller of the Currency conditionally, one had preliminary approval, one was disapproved, and one was pending at the year end.

Five applications for general or limited voting permits were received from holding company affiliates in the district. The applications were reviewed and submitted, with memorandums and recommendations of our Executive Committee, to the Board of Governors of the Federal Reserve System for action as to approval or disapproval.

Two registration statements of bank holding companies were received and processed. Also two applications of bank holding companies to acquire shares of bank stock were received and processed. One of those applications was approved and the other application is being held in abeyance at the end of the year at the request of the bank holding company.

Investigation was made in connection with the application of one national bank for permission to exercise full fiduciary powers. The application, together with the recommendation of our Executive Committee, was sent to the Board of Governors. At the year end, the application was still pending.

One hundred eighty-three applications for adjustment of holdings of Federal Reserve Bank stock were received from member banks. Stock was issued to three new members. Three applications for total surrender of stock were received and the stock cancelled. The bank examination department approves applications for adjustment, for new stock, and for cancellation of stock.

Monthly reports were forwarded to the Board at Washington showing changes in the status of all state and national banks in the district. Records are also maintained and a weekly report sent to the Board with reference to status of applications received from state banks for membership in the Federal Reserve System, status of applications for fiduciary powers, and examinations started by our examiners during the week.

The bank examination department handles correspondence and inquiries with reference to many of the Board's regulations, and with respect to Regulation T prepares and forwards to the Board at Washington consolidated statements of those firms which are members of national securities exchanges where the home office of such firms is within this district.

At the close of the year there were 473 member banks in this district, the same number as at the beginning of the year. The number of National banks increased one and the number of State member bank decreased one. The total membership at the close of the year was divided into 344 National banks and 129 State banks.

Total number of member banks in the district		
January 1, 1956		473
National banks organized		2*
State banks admitted		<u>1</u>
		476
National banks liquidated		
National banks absorbed by nonmember state banks		
State member banks withdrawn from membership	<u>1</u>	<u>3*</u>
Total number of member banks holding stock in the Federal Reserve Bank of Minneapolis at the end of the year		473

* Does not include the conversion, effective at the close of business December 31, 1956, of Bank of Boyceville, Boyceville, Wisconsin (State member bank), to National Bank of Boyceville, Boyceville, Wisconsin. The Federal Reserve Bank stock held by the State member bank had not been cancelled and reissued in the name of the national bank at the year end.

Stock in the Federal Reserve Bank
Issued to New Member Banks

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>	<u>No. of Shares Subscribed</u>
9-18	First Southdale National Bank of Edina	Edina, Minnesota	120
10-1	Tri-County State Bank of Ortonville	Ortonville, Minnesota	39
6-28	The Western National Bank of Rapid City	Rapid City, South Dakota	90

MEMBER BANKS SEVERING CONNECTION WITH THIS FEDERAL RESERVE BANK DURING 1956

NATIONAL BANKS ABSORBED BY NONMEMBER STATE BANKS

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>	<u>No. of Shares Surrendered</u>
2-27	The First National Bank of (Absorbed by Harmony State Bank, Harmony, Minnesota)	Harmony, Minnesota	60

NATIONAL BANKS LIQUIDATED

11-8	The First National Bank of	Parkston, South Dakota	90
------	----------------------------	------------------------	----

STATE MEMBER BANK WITHDRAWALS

4-2	First State Bank of Pierpont	Pierpont, South Dakota	30
-----	------------------------------	------------------------	----

CHANGES IN TITLES OF MEMBER BANKS

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>
3-1	The Union National Bank of Rochester changed to Northwestern National Bank of Rochester	Rochester, Minnesota
6-1	The American National Bank of St. Cloud changed to The First American National Bank of St. Cloud	St. Cloud, Minnesota
2-1	The Commercial National Bank of Bozeman changed to First National Bank in Bozeman	Bozeman, Montana
9-1	The First State Bank of Gilby changed to Valley Bank of Grand Forks	Gilby, North Dakota Grand Forks, North Dakota
11-1	First National Bank of The Black Hills, Rapid City changed to First National Bank of The Black Hills	Rapid City, South Dakota
3-15	The National Bank of La Crosse changed to First National Bank of La Crosse	La Crosse, Wisconsin

FISCAL AGENCY

During the year 1956 we received and processed tenders for the Treasury Department's weekly offering of Treasury Bills, for cash and in exchange for maturing bills, as follows:

<u>Tenders Received</u>	<u>Subscribers</u>	<u>Amount</u>	<u>Accepted</u>
4,645	6,646	\$760,614,000	\$727,169,000

The lowest average yield on the bills during the year was 2.173% on the bills dated March 8 and March 29, 1956. The highest yield during the year was 3.331% on the bills dated December 20, 1956. The Treasury Department also offered one issue of Tax Anticipation Treasury Bills during the year. These bills were dated December 17, 1956, and will mature on March 22, 1957. This issue will be accepted by Directors of Internal Revenue at face value in payment of income and profits taxes due on March 15, 1957. This bank received and allotted tenders for this issue as follows:

<u>Tenders Received</u>	<u>Subscribers</u>	<u>Amount</u>	<u>Allotted</u>
152	152	\$94,442,000	\$45,832,000

There were also two special offerings of the Treasury Bills for which we received and allotted tenders as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Tenders Received</u>	<u>Subscribers</u>	<u>Amount</u>	<u>Allotted</u>
Oct. 17, 1956	Jan. 16, 1957	224	225	\$101,745,000	\$45,115,000
Nov. 16, 1956	Feb. 15, 1957	243	243	128,565,000	68,985,000

On August 6, 1956, the Treasury Department also offered, for cash, 2 3/4% Treasury Certificates of Indebtedness of Series B-1957, Tax Anticipation Series, dated August 15, 1956, due March 22, 1957. This issue will be accepted by Directors of Internal Revenue at face value plus accrued interest to maturity in payment of income and profits taxes due on March 15, 1957.

This bank received and allotted subscriptions for this issue as follows:

<u>Applications</u>	<u>Subscriptions for Banks</u>	<u>Subscriptions for Others</u>	<u>Amount</u>	<u>Allotted</u>
326	307	39	\$255,454,000	\$84,886,000

The Treasury Department offered the following securities, during 1956, in exchange for matured or called issues:

<u>Issue</u>	<u>Subscriptions for Banks</u>	<u>Subscriptions for Others</u>	<u>Allotted in Full</u>
2 5/8% Treasury Certificates of Indebtedness Series A-1957 Dated 3-5-56, Due 2-15-57	237	66	\$ 46,858,000
2 7/8% Treasury Notes of Series A-1958 (Additional Issue) Dated 12-1-55, Due 6-15-58	197	39	28,991,000
2 3/4% Treasury Notes of Series D-1957 Dated 7-16-56, Due 8-1-57	660	207	97,466,000
3 1/4% Treasury Certificates of Indebtedness, Series C-1957 (Tax Anticipation Series) Dated 12-1-56, Due 6-24-57	123	63	32,591,000
3 1/4% Treasury Certificates of Indebtedness, Series D-1957 Dated 12-1-56, Due 10-1-57	317	118	44,630,000
Totals	1,534	493	\$250,536,000

We bought and sold marketable government securities and government guaranteed securities, on the open market, for the account of banks in our district, as follows:

<u>Sale Transactions</u>		<u>Purchase Transactions</u>	
Number	- 1127	Number	- 1018
Par Value	- \$70,911,000	Par Value	- \$40,061,300

During the year 1956, we processed exchange transactions covering United States government securities and government guaranteed securities, as follows:

Coupon bonds exchanged for registered bonds (CXR)

Transactions Received	Pieces Received	Par Value
355	1,058	\$ 16,460,600
Transactions Delievered	Pieces Delievered	Par Value
153	427	\$ 2,402,050

Registered bonds exchanged for coupon bonds (RXC)

Transactions Received	Pieces Received	Par Value
333	684	\$ 3,739,850
Transactions Delivered	Pieces Delivered	Par Value
269	495	\$ 2,578,300

Transfers (TR)

Transactions Received	Pieces Received	Par Value
113	212	\$ 551,700
Transactions Delivered	Pieces Delievered	Par Value
51	126	\$ 116,100

Denominational Exchanges (DX)

Transactions Received	Pieces Received	Par Value
2,331	5,457	\$146,647,700
Transactions Delivered	Pieces Delivered	Par Value
2,331	15,900	\$146,647,700

On December 31, 1956, 1,274 banks with 114 branches and 36 other organizations with 4 branches in our district were qualified to act as paying agents for Series A through E United States Savings Bonds and Armed Forces Leave Bonds. Two hundred twenty-six of these agents are also qualified to pay matured Series F and G bonds. During 1956 these agents and our bank and our Helena Branch paid bonds as follows:

<u>Series</u>	<u>Pieces</u>	<u>Redemption Value</u>
A through E and matured F and G and Armed Forces Leave Bonds paid by agents (Includes Armed Forces Leave Bonds paid by our bank)	2,214,544	\$163,336,045.99
A through E, F and J and matured G bonds paid by our bank and the Helena Branch	170,395	119,814,250.00
G, H and K bonds paid by our bank after release of registration	28,911	40,911,725.00

The paying agents in our district were reimbursed this year for paying savings bonds of Series A through E and Armed Forces Leave Bonds, paid during the last quarterly period of the year 1955 and the first three quarterly periods of 1956, in the amount of \$297,925.90 for 2,204,257 pieces. Beginning with the quarterly period ending on December 31, 1956, the fees due qualified paying agents for paying Series A through E savings bonds and Armed Forces Leave Bonds will be paid by Treasury Department checks drawn and mailed direct to the payee, by the Treasury Department in Washington.

There were 1,412 qualified issuing agents for Series E savings bonds in this district, as of December 31, 1956. 1,289 of these agents were banks. These issuing agents were consigned bonds and reported sales during the year as follows:

<u>Number of Shipments</u>	<u>Pieces</u>	<u>Amount (Maturity Value)</u>
10,294	1,650,663	\$195,569,650.00
<u>Number of Sales Reports Received</u>	<u>Pieces Issued</u>	<u>Amount (Issue Price)</u>
21,541	1,575,034	\$140,217,468.75

Our bank issued United States savings bonds during 1956 as follows:

<u>Series</u>	<u>Number of Applications</u>	<u>Pieces</u>	<u>Issue Price</u>
E	287,571	299,401	\$ 9,179,343.75
H	27,435	52,655	55,164,000.00
J	3,433	10,808	8,521,470.00
K	<u>4,049</u>	<u>7,811</u>	<u>15,364,000.00</u>
	322,488	370,675	\$88,228,813.75

During the year 1956, we reissued for all purposes 125,296 savings bonds with a maturity value of \$30,811,940.

Our safekeeping division handled United States savings bonds during the year 1956 for the account of individuals and organizations other than banks as follows:

Number of pieces received for safekeeping	1,245
Number of pieces released from safekeeping	22,170
Total pieces held in safekeeping on December 31, 1956	186,984

As of December 31, 1956, 1,198 banks in this district were qualified as "Depositories for Public Moneys", and accordingly, were qualified to maintain a "Treasury Tax and Loan Account".

Number of active Class A Accounts	1,002
Number of active Class B Accounts	<u>46</u>
Total active accounts	1,048

Aggregate total deposits for the year \$1,017,356,071.11

Total deposits in Treasury Tax and Loan accounts on December 31, 1956	102,297,669.39
---	----------------

There were 779 banks in this district qualified to act as "Depositories for Federal Taxes" as of December 31, 1956. During 1956 we received from these qualified depositories and direct from taxpayers, depository receipt cards representing deposits for the following taxes:

	<u>Number of Depository Receipts</u>	<u>Amount of Taxes</u>
Withheld Income and Federal Insurance Contributions Act Taxes	266,972	\$509,005,545.19
Railroad Retirement Act Taxes	453	23,757,986.66
Excise Taxes	<u>28,021</u>	<u>84,555,911.74</u>
Totals	295,446	\$617,319,443.59

During the year, interest coupons were redeemed as follows:

	<u>Pieces</u>	<u>Amount</u>
Coupons from Treasury Issues	281,392	\$44,855,971.20
Coupons from securities for which the Treasurer of the United States acts as Fiscal Agent	<u>14,809</u>	<u>1,627,919.18</u>
Totals	296,201	\$46,483,890.38

The currency verification and destruction unit verified and destroyed 22,311,000 unfit bills amounting to \$34,110,000.00 during the year 1956.

The Fiscal Agency now occupies space on the bank floor and the seventh floor. There were 80 full time and 3 part time employees in the department on December 31, 1956, as compared with 85 full time and 3 part time employees on December 31, 1955.

Commodity Credit Corporation

There are 527 agencies in this district qualified to make Commodity Credit Corporation loans and to service such loans. According to the Minneapolis Office of the Commodity Credit Corporation, all of these agencies were active in 1956.

These agencies drew 373,010 sight drafts on the Commodity Credit Corporation, which we paid.

There were 148,223 collection items handled by us for the Commodity Credit Corporation. We issued 31,238 Treasury checks totaling \$542,994,391.33 on disbursement schedules received from the Commodity Credit Corporation.

We cleared 118,079 checks totaling \$124,224,185.41 deposited by the Commodity Credit Corporation lending agencies.

There were 2 full time employees and 1 part time employee in this division as of December 31, 1956.

Reconstruction Finance Corporation Pool Loans

Banks in this district, which service such loans, made 773 remittances totaling \$592,699.22, for payments on the principal and interest of such loans, during the year 1956. We credited the Federal Reserve Bank of Chicago, as Fiscal Agent of the Reconstruction Finance Corporation, for the payments received each day.

NONCASH COLLECTION

	<u>Number</u>	<u>Change from 1955</u>	<u>Amount (000 Omitted)</u>	<u>Amount Change from 1955 (000 Omitted)</u>
City Collections				
Grain Drafts	601,977	-185,947	\$532,261	\$-172,262
City Items	111,041	- 17,840	69,249	- 11,334
Country Collections	23,528	- 2,161	24,017	+ 900
Security Collections	248,056	+ 21,211	17,083	+ 1,975

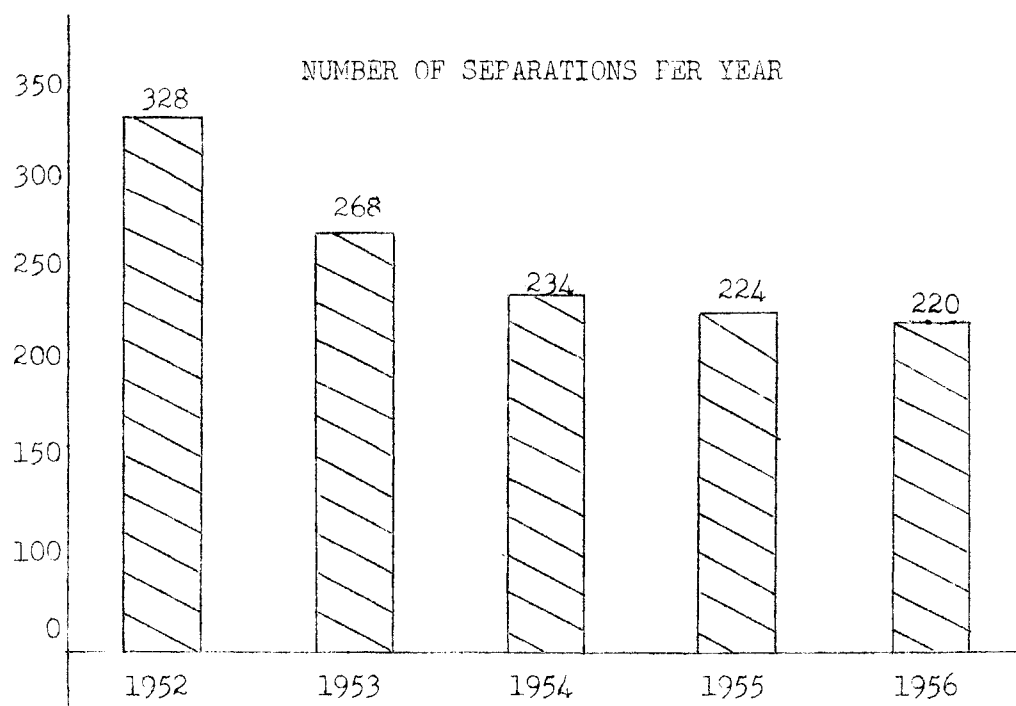
Most of the decrease of approximately 31 per cent in city collections - grain drafts was caused by a change in operations resulting from an arrangement between our bank, the American National Bank, St. Paul, and the Farmers Union Grain Terminal Association. Under this arrangement, drafts drawn on the Farmers Union are presented through clearings to the American National Bank. The banks sending us these drafts now receive immediate credit instead of the one or two day deferment of credit in effect heretofore.

PERSONNEL

In October the personnel department returned to a temporary location on the seventh floor of the bank building after being located for over a year in the Thorpe Building, 523 Marquette Avenue.

The staff on December 31, 1956, totaled 627 employees. Three hundred ninety-four were women and 233 were male employees. The accessions for the year totaled 207 and the separations 220.

Total clerical employment in Minneapolis is at its highest. The Minneapolis board of education indicates that approximately one-half of the graduates from Minneapolis high schools plan to attend a college or university instead of entering the labor market. Because of these and other circumstances, it was difficult to obtain qualified clerical applicants during the year. However, by careful recruitment, interviewing and testing, we were able to fill our employment requirements. It appears to be significant that separations were again down for the year as they have been for the last four (see chart below).



We believe this indicates a good attitude on the part of the staff during a period when our building expansion has made working conditions less desirable.

During March our board of directors approved a revised policy for annual medical examinations at bank expense for the officers of the bank. These examinations are conducted by our bank physician or by the officer's personal physician if approved by the bank physician.

In order that the nurse could offer the greatest possible aid when an employee or one of his family needs blood, an appeal for voluntary blood donors was made in January to the entire staff so that the nurse could have a list of employees who would like to be contacted to donate blood if the need arose.

In July staff members were contacted regarding a new group special diseases insurance policy at a reduced cost with greater coverage, to take effect August 1, 1956. The coverage provides for \$15,000 maximum reimbursement at a cost of \$4 for individual and \$9 for family coverage instead of the previous policy of \$10,000 maximum at a cost of \$5.40 for individual and \$10.80 for family coverage. Two hundred-three members of the staff (172 at Minneapolis and 31 at Helena) took advantage of this coverage, which will be in effect for two years.

Under our Blue Cross-Blue Shield contract for the period August 1955 through July 1956, 146 of our employees had claims under Blue Cross, totaling \$25,694.29. Of this amount, \$23,172.90, or 90 per cent, was paid by Blue Cross. Under Blue Shield, there were 172 claims, amounting to \$7,228.50.

As in past years, we have continued to use the cooperative school work program to train employees by hiring them on a part-time basis. Eight senior girls from local high schools were employed during September on a

part-time basis to become full-time members of the staff after graduation.

In order to better acquaint local high school and college graduates with the opportunities afforded by a career in banking, we participated with other Twin City banks in sponsoring a banking booth at a Career Festival, which was held at St. Thomas College in St. Paul during April.

In August, based on salary surveys conducted in Minneapolis and Helena, we received approval from the board of governors in Washington, D. C. to increase all salary ranges by approximately 7 per cent at the head office and Helena branch.

In December, the discount committee of the board of directors amended our vacation policy, to become effective January 1, 1957. Under our new policy, employees will be entitled to receive three weeks of vacation each year after completion of ten years of service instead of fifteen years, and will receive four weeks of vacation each year after twenty-five years of service instead of thirty years.

As a security measure, it was decided to microfilm certain personnel records every six months and send the film to the Helena branch for safekeeping. The film would furnish enough vital information so that records could be reconstructed as to employees' job title, grade, salary, retirement system and group insurance provisions, last known address, etc. Our records were microfilmed twice during the year.

In connection with a savings bond campaign sponsored by the Minnesota Bankers Association, the Federal Reserve Club conducted a solicitation of the staff to obtain new bond subscribers. Fifty staff members enrolled in this plan, to bring total participation through our payroll deduction plan to 35 per cent.

For the fourth consecutive year, a campaign was conducted for

United Appeal for Charities. The total amount pledged by our employees was \$7,692.80. Ninety-six and one-half per cent of our staff participated in the campaign with an average pledge of \$12.87. Our bank received special recognition from the Community Chest by virtue of our average pledge to the Community Chest exceeding \$8 per employee.

In order to insure proper alignment of positions in relation to all others, we have continued to rewrite and evaluate positions under our job evaluation program. During 1956, 37 job descriptions were written or reviewed and submitted for evaluation, 10 job descriptions no longer being used were cancelled, 2 jobs were reinstated, and at the end of the year many others were being processed. Since our audit of job descriptions was begun three years ago, approximately 80 per cent of our jobs have been reviewed.

Our cafeteria, operated by Nationwide Food Service, has continued to serve wholesome and well-prepared food for our staff at minimum cost. We are currently absorbing approximately 39 per cent of cafeteria costs.

For the twentieth consecutive year, our employees' suggestion system has been in operation. During 1956 there were twenty suggestions submitted; four were accepted and \$130 was awarded.

In 1956 the bank again sent two additional men to the Central States School of Banking at Madison, Wisconsin, to keep our total enrollment at six. We also enrolled one officer in the Graduate School of Banking at Rutgers University, he being our only representative at that school.

One senior man completed the two-year course of the Agricultural Credit School at Iowa State College.

Two senior men were enrolled in the Dale Carnegie Course in Effective Speech and Human Relations in the fall of 1956 and will complete the course in January 1957. Two senior men finished classes at the University of Minnesota last spring and re-enrolled for additional classes this fall.

The Personnel Development Committee followed its usual practice of recommending persons from our staff to attend educational conferences during the year. Among the meetings of this kind at which we were represented was a Management Development Workshop sponsored by the Minneapolis Chapter of the National Office Managers Association, a conference of junior bank officers and staff members sponsored by the Minnesota Bankers Association, the national convention of the National Association of Bank Women, and an Industrial Relations Conference sponsored by the University of Minnesota. For the second year the bank sponsored a Junior Achievement group of high school students, and three members of our staff, on recommendation of the Personnel Development Committee, agreed to serve as advisers to the group for the 1956-1957 school year.

The Committee also specifically recommended attendance at an Agricultural Credit Course sponsored by the American Institute of Banking for five senior men, all of whom completed the course. Two of our bank

examiners completed the Inter-Agency School for Bank Examiners in Washington, D. C. during 1956.

In order to keep abreast of new developments in personnel policy and salary levels at other local organizations, we continued to have representatives of the personnel department attend various local meetings and conferences of personnel organizations such as the National Office Management Association, Twin City Bank Personnel Group, Personnel Surveys, Inc., and the University of Minnesota.

In April the bank nurse attended the 16th Annual Continuation Course for Occupational Nurses at the University of Minnesota, Center for Continuation Study. Included among the topics were: the changing emphasis in occupational health service, advances in drugs, and the expanding employability of physically handicapped people. Also discussed was the rehabilitation of heart and cancer employees.

In February the editor of the Bank News attended the Eleventh Annual Midwest Editors' Institute at Chicago, Illinois. Included among the topics on the agenda were company publications, publication analysis, and the effect of company publications on employees.

The Administrative Assistant was enrolled in two industrial relations courses, "Introduction to Industrial Relations" and "Vocational and Personnel Psychology", at the University of Minnesota. The courses covered determination of labor needs, methods of dealing with employees, training and safety programs, compensation, collective bargaining, and how certain factors such as age, sex, race, heredity and environment relate to differences in ability and temperament.

On December 31, 1956, 287 employees were members of the American Institute of Banking, and during the year 161 members enrolled in 20 classes

in order to further their education and better prepare themselves for their work. One of our employees was elected first vice president of the local chapter of the American Institute of Banking. In addition, many members of the staff have been appointed to A.I.B. committees as chairmen or assistants and counsels or assistant counsels. The 54th A.I.B. National Convention in Dallas, Texas, was attended by the A.I.B. first vice president and three other employees of the bank staff.

Our most ambitious educational program for junior employees of the bank during the year was a course of Commercial Bank Training for 10 junior employees. Each of these men spent one week in a member bank becoming acquainted with commercial bank operations and procedures.

The bank followed its usual policy of reimbursing employees for tuition costs of American Institute of Banking classes where the class has been successfully completed. The bank also gave its usual financial support to the A.I.B. In addition to this voluntary attendance of A.I.B. classes, the Personnel Development Committee specifically recommended that seven junior employees take classes which would help to fit them for supervisory work.

One junior member of the staff completed two courses at the University of Minnesota; one member of the staff completed a one-week course conducted by International Business Machines Corporation; and three staff members attended a Postal Classification and Rate Clinic sponsored by the U. S. Post Office.

Two junior members of the staff were carried as "trainees" during the year, each being assigned to specific departments for training. Another junior employee was assigned to a four-months' training program during which time he was rotated through all departments of the bank before

being assigned to a permanent job.

In June we employed a male business college graduate as a trainee in the personnel department. During his first four months of employment, he was rotated between all departments in the bank. He is presently learning the various jobs in our payroll section and later will be trained in the employment section. His addition, after training, will permit us to do a more complete job in the personnel research area, fringe benefit and salary survey phase of our work.

As a part of our regular program of bank calls, 13 senior men in the bank were assigned to regular territories and made calls on all of the banks in their assigned territories.

During the year, the department heads of safekeeping, currency and coin, and noncash collections departments were rotated for a four-weeks' period each for the purpose of training each of them in an alternate job as well as the purpose of audit safeguard. The noncash department head spent an additional month in the safekeeping department for training purposes only.

Also, during the year two officers and four of the senior men from our Helena branch spent one week each in the head office as a training assignment.

PLANNING

The planning department, during 1956, arranged for and supervised the necessary moves of employees and equipment occupying space required by the contractors as the building alteration and construction program proceeded. Layout plans for the space to be occupied by each department upon completion of the building program were prepared, including partition requirements.

The planning department supervised the movement in October of departments which occupied space in the Thorpe and Syndicate buildings to space made available in the bank building, including the sixth and seventh floors of the new addition. Our lease of space in the Syndicate building expired on November 15, 1956, and we cancelled our lease of space in the Thorpe building as of December 31, 1956. The accounting and central files departments were moved in October from space in the subbasement and basement areas to the sixth floor of the new addition.

The department assisted the Helena branch in preparing plans for improvements in currency and coin vault and handling facilities, and in the purchase of the equipment required, including an armored car.

The problems incident to the adoption of Saturday closing of the Helena branch, effective May 1, 1956, and the operation of the check collection department on Saturdays on this basis were considered and operating policies suggested for consideration and approval of management.

Several surveys were conducted for the United States Treasury department and the check collection departments of the head office and the Helena branch on the operating problems incident to the conversion of government check accounting and reconciliation to electronic equipment at the Treasury department commencing August 1, 1956, with the scheduled com-

pletion of the conversion July 1, 1957.

Extensive surveys were conducted for various system committees and information, comments and suggestions furnished. M. E. Lysen, operating research officer, is currently serving as a member of a Subcommittee on the Study of Float of a Special Committee of the Federal Open Market Committee, and extensive research is being conducted for this subcommittee.

The planning department considers employees' suggestions and makes recommendations to the personnel committee for the acceptance or rejection of such suggestions. New forms are designed by the department and all forms are reviewed prior to purchasing. The distribution of operating letters and supplements to member banks is a responsibility of the department.

PROTECTION

Two guards left the employ of the bank during 1956, and two new guards were hired to fill these vacancies. As of December 31, 1956, the personnel of the protection department was as follows:

- 1 Superintendent
- 5 Sergeants (one acting as range instructor)
- 28 Guards (one acting as chauffeur)

Range work which had been discontinued was resumed in September.

Ammunition for all weapons was renewed and old ammunition was fired on the range by guards in their weekly practices.

All guards were given training on all arms, as well as their side arms.

All outside alarms were tested monthly, and all inside alarms were tested weekly.

The information clerk issued 2,233 passes to outsiders who wished to visit upper floors of the bank during the year; 1,187 work cards were issued to outside workmen, canteen employecs, etc.

At the request of the bond, noncash collection and currency departments, 390 guard escorts (302 singles and 88 doubles) were furnished.

By memorandum and after-hour passes, 3,439 employees were admitted to the bank after hours.

PUBLIC SERVICES

The objectives toward which the activities of the Public Services Department are aimed are similar to those adopted by the Conference of Presidents of the Federal Reserve Banks in 1953 but are somewhat broader in scope. In addition to the twin objectives which the Presidents stated of bringing about a better understanding of the Federal Reserve System by the public and of keeping the System aware of public attitudes towards its activities, the Public Services program of this bank also hopes to create a feeling among the banks and general public of good will toward and confidence in Federal Reserve actions. It is our thought that, while we should aim for as broad an understanding of the System's purposes and functions as possible, there is a limit to the number of persons who will ever achieve a complete understanding of these matters. On the other hand, there is almost no limit to the number of friends we can make for the Federal Reserve System and for the Federal Reserve Bank of Minneapolis.

Our Public Services program is divided into two general fields:

- (1) Bank Relations, and
- (2) Public Information and Education

The most ambitious part of our activities in the area of Bank Relations is our program of bank calls. During 1956 each of the 1,297 banks in the district was called on at least once and banks in some of the larger cities were called on twice. The district served by our Head Office is divided into 25 areas with one of our officers or senior men assigned to each area to call on all of the banks located therein. Four senior officers make an additional call on the banks in larger cities. Montana banks are called on by the officers assigned to our Helena Branch. Reports are prepared on each individual bank call and a general report of each man's trip is sent to the president of the bank. The calls serve an excellent purpose in keeping us acquainted with business, banking, and agricultural conditions in the district and in giving us an avenue through which commercial banks can ask questions about or make suggestions or complaints on Federal Reserve policies and services.

Our program of meetings was continued in 1956 with our Assembly for Member Bank Officers and Directors held late in April being attended by 517 persons. The annual one-day Workshop meeting for college teachers of money and banking and economics held early in May brought in a record number of 122 guests. The Examiners' Conference held late in November was attended by 125 persons in addition to our own staff members. This meeting is the one gathering in the district where examiners from the three Federal supervisory agencies, the State banking departments, and the local clearing house association all get together. Our Short Course in Central Banking, which has proved very popular over the years, had to be discontinued this year because of our building program but we hope to reopen it with several courses in the winter of 1957-1958.

In addition to meetings sponsored by our own bank, members of our staff were in attendance at the American Bankers Association convention, all State bankers' conventions, about 25 group meetings, and various other meetings, clinics, schools, and conferences sponsored by banking groups in this district. Attendance at such meetings is most important if we are to develop and maintain a friendly relationship with our banker friends.

Our two counterfeit displays were used 24 times during the year mostly by banks celebrating anniversaries or the opening of new or remodeled quarters. A display of counterfeit currency loaned to us by the United States Secret Service was also used 4 times during the year.

As usual we have a good number of bankers call on us during the year. We continued to operate an informal placement service for banks seeking men and men seeking jobs.

In the field of Public Information and Education, we continued during the year to distribute 6 movies including our own, "The Federal Reserve Bank and You". This latter film continued to prove the most popular and was seen by an additional 20,364 persons during the year to bring the cumulative audience definitely reported to us to 277,217. The Encyclopaedia Britannica film, "The Federal Reserve System",

was shown to 5,032 people; the two Federal Reserve Bank of Richmond films, "Your Money's Worth" and "You and Your Money", were shown to 3,479 and 2,912 persons respectively; and the Federal Reserve Bank of Cleveland films, "A Day at the Federal Reserve Bank of Cleveland" and "Soil Conservation Pays", were shown to 1,983 and 1,545 persons respectively.

Our picture book, "Your Money and the Federal Reserve System", continued to be increasingly popular during the year as we received 998 requests for a total of 15,329 copies. This brings the total number of copies distributed since its publication in 1941 to approximately 130,000. At the present time we are in the process of making a major revision of this booklet. We also distributed 1,071 copies of the Board's publication, "The Federal Reserve System, Its Purposes and Functions", and 980 copies of "Money: Master or Servant?" published by the Federal Reserve Bank of New York. A new booklet issued by the New York bank in September called "Federal Reserve Operations in the Money and Government Securities Markets" has been distributed to all teachers of money and banking in the district as well as to a number of bankers, a total of 276 copies having been sent out so far.

Members of our staff gave 105 talks to a total estimated audience of 13,400 persons during 1956. While the majority of these talks were given by members of our Research staff and covered business, monetary, and agricultural topics, quite a number of them were on the Federal Reserve System, its policies and operations, and these for the most part were given by members of our staff assigned to the departments other than Research. In January we set up a speakers' bureau consisting of officers other than those assigned to the Research Department for the purpose of taking some of the speaking load off our Research people.

Only 785 persons toured our bank during the year as compared with more than 4,000 in 1955 because of our deliberate policy of restricting tours during our building program.

Our building program also limited the number of special luncheons held during the year. We had no dining room facilities in the bank but a few luncheons were held outside the bank in honor of distinguished foreign visitors.

A total of 522 clippings of news stories taken from papers in our district indicate that press releases prepared by the Research Department and Public Services Department are being well used by newspapers throughout our area. This total does not include news stories appearing in the Twin Cities' newspapers or in the financial press where we receive excellent coverage.

With the completion of our new banking quarters this spring, we shall be able to resume some of the activities which have had to be temporarily discontinued. These include resumption of bank tours and special luncheons. We also hope to reopen the Short Course sometime during the winter of 1957-1958. Our most ambitious project for 1957 will be a two-day open house and conference of all banks in the district early in May in celebration of the completion of our new banking quarters.

PURCHASING

The prices paid for supplies continued to increase moderately during the year 1956. Because of the building program, it was necessary to continue to limit quantities purchased of many bulky items because of inadequate stock room space and the utilization of areas temporarily vacated to safeguard employees during the heavy erection period underneath the former sky lights above the side areas on the bank floor.

During the latter part of the year substantial purchases of furniture and equipment were made in anticipation of the utilization of floors in the new addition to the building. Such purchases included equipment for the new cafeteria and dining rooms, the assembly room, etc., and involved the purchase of such items as chairs, tables, partitions, shelving, etc.

RESEARCH

The public's increasing interest in monetary policy and the Federal Reserve System during the past year stepped up the work of the research department in furnishing information and statistical data for both official and public use.

The board of governors requested the following information and surveys during the past year to aid them in policy decisions:

February	The experience of district merchants on collections and credit availability.
February	A study of mortgage warehousing by large banks. (Repeated again in May, August and November.)
February	A survey to determine the extent to which automobile paper purchased by commercial banks was on a "recourse" basis.
May	An analysis to show automobile financing practices of commercial banks.
May	A study to show characteristics of personal trusts in District commercial banks.
June	A survey of automobile instalment credit to show terms and practices of automobile dealers.
June	A new statistical series was requested on a daily basis showing member bank utilization of the federal funds market.
July	A new statistical tabulation of member bank borrowings and required reserves was requested on a weekly and semimonthly basis.
July	A statistical series on repossessions of automobiles by commercial banks active in sales financing was instituted.
August	A series on repossession titles issued by the various state motor vehicle departments was set up.
October	Home builders operations during 1956 and intentions for 1957 were surveyed.

November The survey of ownership of demand deposits at commercial banks was re-established.

A major research effort during the year was the Agricultural Loan survey which was planned during the first half of the year, conducted as of June 30, and processed during the last half of the year. This survey involved 140 member and nonmember bankers in the ninth district.

Other special projects in the field of agriculture included the establishment of a monthly series on the volume of agricultural production loans at a selected group of district banks. This was part of a pilot survey initiated by the System Committee on Agriculture to investigate the feasibility of a more current series on agricultural loans.

Two special research studies were published during 1956. These were "Pulp and Paper in the Upper Lakes Region" and "Housing and Mortgage Markets", which were issued as supplements to the Monthly Review.

Other regional research projects developed during the year were as follows:

January	An analysis of Population Trends in the Ninth District.
July	A survey of the price of houses in Minneapolis.
August	A new set of factual and graphic tables on member bank borrowings which are maintained on a current basis was set up for use by the discount committee.
September	The Missouri Basin development program was resurveyed as a supplement to an earlier study. Publication of the results is scheduled early in 1957.
October	A new internal statistical tabulation-- "Business Indicators", was established, which provides ready access to district and national economic data on a current basis.

- November An investigation of business developments in suburban areas as they relate to the field of banking was initiated.
- December A study of forest industries in the western portion of the district is near completion and it will be ready for publication early in 1957.

In addition to the special projects outlined above, the research department has continued with its routine statistical and analytical work.

During 1956 research personnel maintained a complete record of time spent on various categories of work. The following tabulation is the 1956 summary of time distribution. It is interesting to note that more than a fifth of the department personnel's time was spent in providing information to the public in one form or another.

<u>Function</u>	<u>Percent of Time</u>
Statistical series	33%
Economic studies	29
Reference library	10
Public information	22
Meetings	5
Nonresearch activities	<u>1</u>
Total	100%

Requests for research staff speakers were numerous. During the year, the economists filled 104 speaking engagements before a combined audience of approximately 14,000. This year, as in previous years, the department sponsored the Money and Banking Workshop on May 5. The popularity of this meeting, which is intended for college professors primarily in the field of money and banking, is attested by a mounting attendance. This year the session was attended by 119 guests--the largest of eight consecutive conferences.

Participation in System committee work was continued, with members

of the research staff serving on 13 committees and subcommittees.

With respect to department publications, circulation statistics are as follows:

	<u>Monthly Review</u>	<u>Farm News</u>
Circulation, beginning of year	6,762	6,245
Plus: additions	1,105	1,290
Less: deletions	<u>516</u>	<u>3,278*</u>
Circulation, end of year	7,351	4,257
Plus: bulk shipments (end of year)	<u>1,130</u>	<u>4,619</u>
TOTAL distribution, December 31, 1956	8,481	8,876

*Deletions include 2,700 names not replying to a circularization of the mailing list in May 1956.

A new format and layout was designed for the Monthly Review. This will be presented in the January 1957 issue of the Review.

The services offered by the library have been expanded by the addition of a second librarian. More complete cataloging and indexing of library material is now possible. The library received an average of 340 reference questions per month. Of these, approximately 70 per cent originated within the bank.

The number of employees in the department has remained fairly constant and has averaged about 30 employees during the year.

SAFEKEEPING

The over-all picture of the operations in the safekeeping department in 1956 continues to show declining dollar volume over the year 1955. This decline was slight, however, amounting to approximately 1% or \$16,000,000. The number of pieces received during the year, however, exceeded those delivered by us by 5,776 pieces.

The largest increase in the work during the year occurred in the number of coupons clipped, where the figure was 29,846 pieces above the 1955 figure.

Securities held for safekeeping and collateral purposes as of December 31, 1956, were \$1,477 million, a decrease of \$16 million, compared with \$1,493 million held a year ago, as reflected by the comparative figures for 1956 and 1955 shown on the following page.

<u>Accounts</u>	<u>12-31-56</u>	<u>12-31-55</u>	<u>Inc. or Dec.</u>
Securities held in safekeeping (not pledged)	703,476	763,995	- 60,519
Securities pledged to secure Public Deposits	428,407	413,463	+ 14,944
*Securities pledged to secure Government Deposits	12,247	13,287	- 1,040
**Securities pledged to secure Treasury Tax and Loan Account	269,217	230,928	+ 38,289
***Securities held as Collateral for Discounts and Advances	63,390	71,528	- 8,138
Securities held for other Federal Reserve Banks	0	0	0
Securities held as collateral to Consignment Account--U.S. Savings Bonds, Series E			
Securities held for Public Housing Administration	<u>0</u>	<u>0</u>	<u>0</u>
	1,476,737	1,493,201	- 16,464

- *Includes \$1,118,000 held by Commercial Banks
- **Includes \$17,172,000 held by Commercial Banks & other Federal Reserve Banks
- ***Includes \$2,200,000 held by Commercial Banks

The safekeeping department received 70,323 pieces of securities, issued 7,864 receipts and delivered 64,547 pieces in 9,479 transactions, resulting in a net increase of 5,776 pieces of securities.

The department also made 10,185 transfers of securities from one account to another and clipped 357 thousand coupons from securities held during 1956.

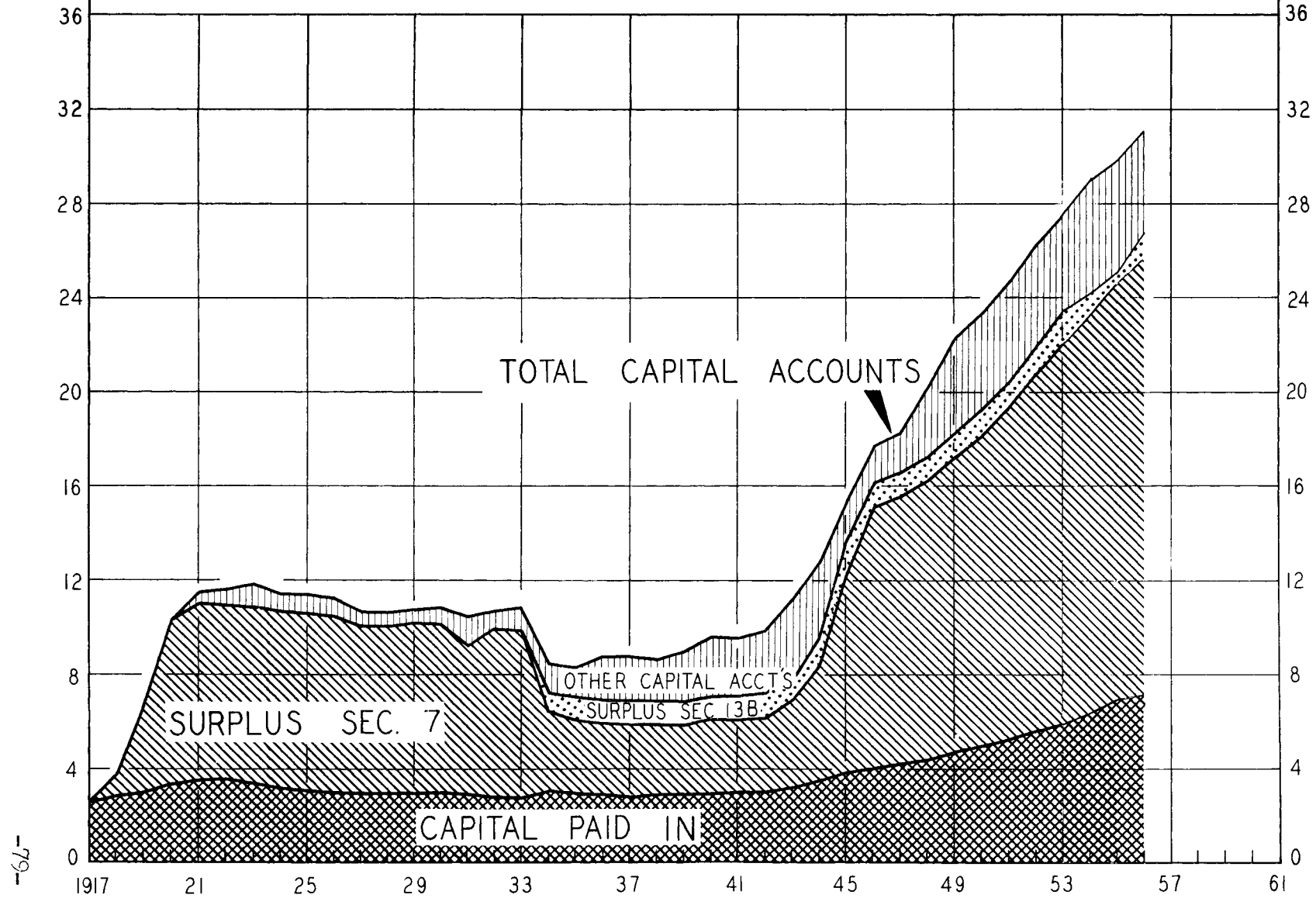
The table below shows comparative volume figures for 1956 and 1955.

	<u>1956</u>	<u>1955</u>	<u>Inc. or Dec.</u>
Receipts issued	7,864	8,138	- 274
Pieces received	70,323	78,291	- 7,968
Withdrawals handled	9,479	9,771	- 292
Pieces delivered	64,547	66,345	- 1,798
Transfers from one account to another	10,185	9,838	+ 347
Coupons clipped	357,145	327,299	+ 29,846
Custodian receipts issued	1,229	1,573	- 344

MILLION DOLLARS

MILLION DOLLARS

CAPITAL ACCOUNTS



-79-

CAPITAL ACCOUNTS

CAPITAL STOCK paid in totaled \$7,182 thousand on December 31, 1956, an increase of \$321 thousand during the year.

SURPLUS ACCOUNTS. Surplus (Section 7) was increased \$934 thousand on December 31, 1956, which brings the total to \$18,520 thousand; Surplus (Section 13b) remained unchanged at \$1,073 thousand.

RESERVE FOR CONTINGENCIES. No change was made in the reserve of \$1 million set aside for losses in excess of the blanket bond coverage, the reserve of \$500 thousand earmarked for losses not covered by the Loss Sharing Agreement or the special reserve for contingencies of \$2,476 thousand.

The reserve for registered mail losses totaled \$264 thousand as of December 31, 1956. During the year we received an additional recovery of \$5 from the Cokato Postmaster in connection with the net loss of \$820 which we sustained in a currency shipment made to First National Bank, Cokato Minnesota on September 29, 1955. The regular yearly addition based on shipments made amounted to \$11,458.19.

The following table reflects the changes made in reserve for registered mail losses during 1956.

Reserve for registered mail losses beginning of year 1956	\$252,859.14
--	--------------

Credit:

Annual addition based on 2¢ per \$1,000 of total shipments of \$572,909,363 for 12-month period Dec. 1, 1955 through Nov. 30, 1956	11,458.19
---	-----------

Additional recovery received from Cokato Postmaster on lost shipment of currency to First National Bank, Cokato, Minnesota, 9/29/55	<u>5.00</u>
--	-------------

Reserve for Registered Mail Losses, Dec. 31, 1956	\$264,322.33
--	--------------

The following table shows currency and coin shipments made during the twelve-month period December 1, 1955 to November 30, 1956, which was the basis for the addition to the registered mail loss reserve:

	12 Months ended 11/30/56 <u>(000 Omitted)</u>
<u>Registered or Insured Mail and Express</u>	
Net F.R. currency from Washington	\$ 54,600
Currency and coin between Minneapolis and Helena	14,316
Other currency and coin outgoing - Minneapolis and Helena	220,838
Other currency and coin incoming - Minneapolis and Helena	<u>283,155</u>
	\$572,909

The disposition of 1956 net earnings and the changes made in the surplus accounts are shown below:

Net Earnings		\$9,762,543.34
Dividends Paid	\$ 422,045.49	
Paid U.S. Treasury (Interest on F.R. Notes)	<u>8,406,448.87</u>	<u>8,828,494.36</u>
Transferred to Surplus (Sec. 7)		\$ 934,048.98
Surplus (Section 7) December 31, 1955		\$17,586,155.47
Transferred from Earnings 1956		<u>934,048.98</u>
Surplus (Section 7) December 31, 1956		\$18,520,204.45

DIVIDENDS

As of December 31, 1956, capital stock held by member banks totaled \$7,182,100, on which accrued dividends totaling \$422,045 were paid. This year's dividend payments were again the largest for any single year in the history of the bank and when combined with previous years' payments, brings the aggregate total to \$9,173,310.

Distribution of 1956 and 1955 Dividends

<u>State</u>	1956		1955		<u>Change</u>
	<u>No. of Banks</u>	<u>Dividend Paid</u>	<u>No. of Banks</u>	<u>Dividend Paid</u>	
Michigan	40	\$ 20,819.06	40	\$ 19,519.36	\$+ 1,299.70
Minnesota	207	272,281.96	206	260,503.34	+11,778.62
Montana	84	46,383.60	84	42,186.93	+ 4,196.67
North Dakota	40	25,528.48	40	23,496.85	+ 2,031.63
South Dakota	60	34,985.69	61	32,322.73	+ 2,662.96
Wisconsin	42	22,046.70	42	21,227.72	+ 818.98
	473	\$422,045.49	473	\$399,256.93	\$+22,788.56

TABLE OF DIVIDENDS PAID SINCE ORGANIZATION

1914	\$ 179,052.04
1915	174,057.31
1916	174,231.27
1917	174,905.39
1918	177,400.58
1919	179,789.68
1920	183,336.33
1921	190,924.19
1922	206,158.74
1923	221,686.96
1924	238,372.30
1925	253,251.30
1926	262,776.22
1927	272,831.22
1928	294,034.00
1929	314,934.23
1930	327,905.73
1931	348,774.12
1932	365,162.76
1933	399,256.93
1934	422,045.49
1935	\$9,173,309.95

a/ For period November 1, 1914 through June 30, 1915.

b/ For period July 1, 1915 through December 31, 1917.

c/ \$134,649.67 withdrawn from Surplus to pay dividend.

BANK PREMISES

The book value of the Head Office and Branch bank buildings did not change during 1956, with normal depreciation of 2% being taken on both buildings. All expenditures in 1956 due to our building program were charged to the building Construction Account. During the year the Head Office fixed machinery and equipment account was increased \$16,305.03 representing installation costs of a new incinerator. By year end, the fixed machinery and equipment accounts at both Head Office and Branch were fully depreciated.

CONSTRUCTION ACCOUNT

As of December 31, 1956, a total of \$4,184,999.82 had been charged to the construction account in connection with our building program. From this total, \$406,055.40 was transferred to expense with \$350,000.00 being charged to repairs and alterations and \$56,055.40 being charged to furniture and equipment purchases. The bulk of the repairs and alterations figure is due to demolition costs and the major portion of the furniture and equipment expense represents cafeteria equipment.

The table on the following page shows construction expense including change orders, amounts paid and balances due as work is completed.

BUILDING CONSTRUCTION EXPENSE
(as of 12-31-56)

	<u>Total Amount</u>	<u>Amount Paid</u>	<u>Balance Due</u>
Naugle-Leck, Inc. (Orig. Cont.)	\$4,252,122.00		
Change Orders (Net Amount)	85,709.43		
Total, Naugle-Leck	<u>\$4,337,831.43</u>	<u>\$3,578,413.00</u>	<u>\$759,418.43</u>
Otis Elevator Co. (Orig. Cont.)	\$ 408,573.00		
Change Orders (Net Amount)	2,293.00		
Total, Otis Elevator Co.	<u>\$ 410,866.00</u>	<u>\$ 259,243.46</u>	<u>\$151,622.54</u>
Larson & McLaren, Architects (Original fees on Naugle-Leck and Otis Elevator Co.)	\$ 233,034.75		
Change Orders (Fees)	4,400.12		
Fees on items totaling \$40,845.64 paid direct to Sterling Electric Co. (Naugle-Leck receives no fees on these items)	2,042.28		
Fees for abandoned project	427.20		
Fees on Insulation Sales Co. invoice (\$350) paid direct (No fee to Naugle-Leck Co.)	17.50		
	<u>\$ 239,921.85</u>	<u>\$ 219,043.46</u>	<u>\$ 20,878.39</u>
Less fees paid but not charged to Construction Account	<u>-4,736.68</u>	<u>-4,736.68</u>	
Total, Larson & McLaren, in Construction Account	\$ 235,185.17	\$ 214,306.78	\$ 20,878.39
Miscellaneous Expense (to 12-31)	132,613.94*	132,413.94	200.00
Miscellaneous Change Order #1 (Paid direct to Sterling Electric Co. No fees paid to Naugle- Leck on this item)	622.64	622.64	
Grand Total	<u>\$5,117,119.18</u>	<u>\$4,184,999.82</u>	<u>\$932,119.36</u>
Less amounts transferred to:			
Repairs & Alterations expense		-350,000.00	
Furn. & Equip. Purchases expense		<u>- 56,055.40</u>	
Balance in Construction Account		<u>\$3,778,944.42</u>	

Total expenditure approved by the Board of Governors in Washington was approximately \$5,105,000.

*Includes \$84,362.98 which is not to be considered as chargeable against the \$5,105,000 approval inasmuch as it represents costs for which commitment was made prior to our receiving the Board's approval for the new construction program.

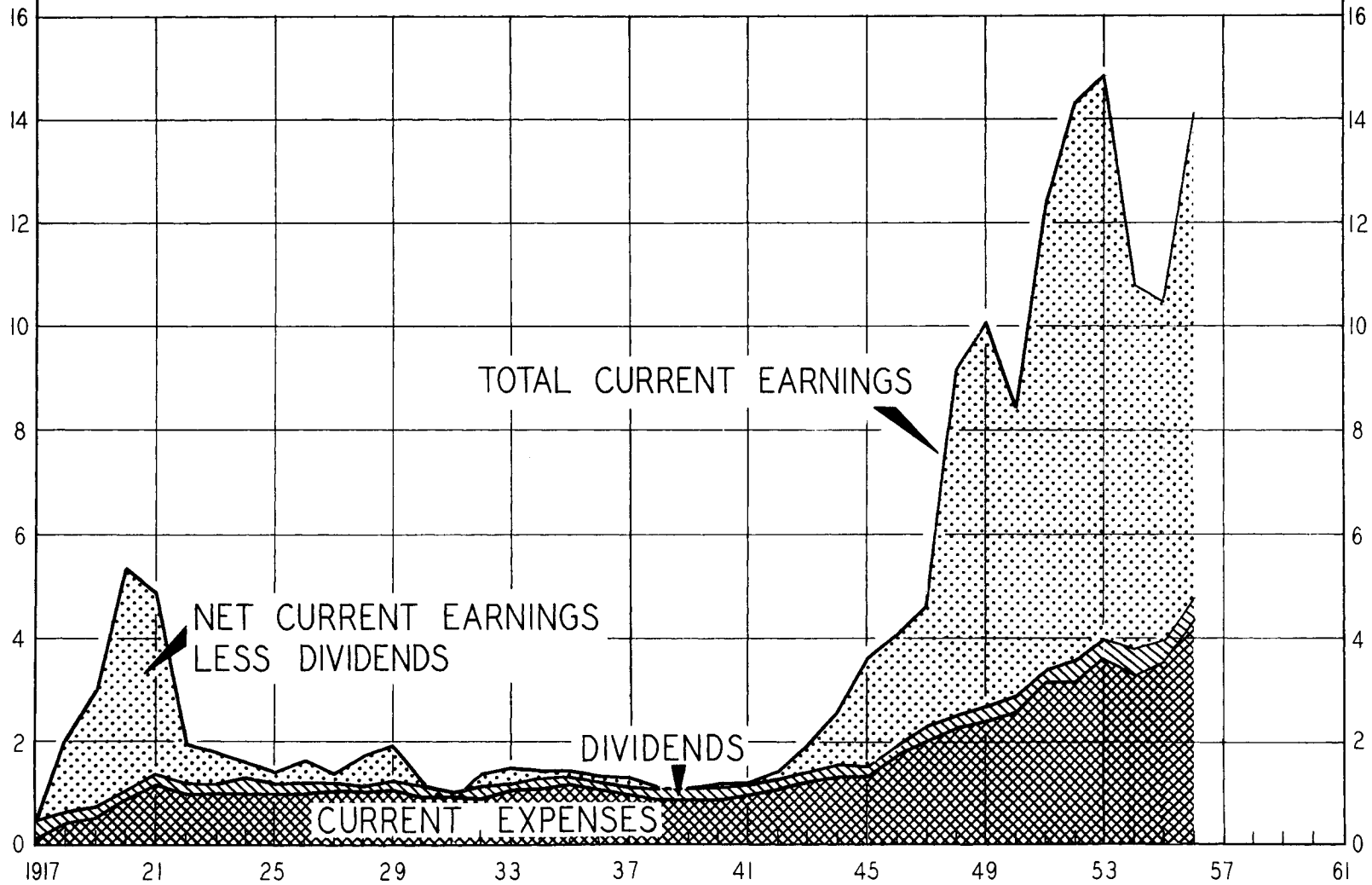
BANK PREMISES

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
<u>BANK BUILDING:</u>			
Gross Book Value:			
Beginning of 1956	\$1,384,281.50	\$1,283,281.50	\$101,000.00
Additions during year	-	-	-
Deductions during year	-	-	-
End of Year	\$1,384,281.50	\$1,283,281.50	\$101,000.00
<hr/> <hr/>			
Allowance for Depreciation:			
Beginning of 1956	\$ 826,563.60	\$ 795,633.96	\$ 30,929.64
Depreciation	27,685.56	25,665.60	2,019.96
End of Year	\$ 854,249.16	\$ 821,299.56	\$ 32,949.60
<hr/> <hr/>			
Net book value December 31, 1956	\$ 530,032.34	\$ 461,981.94	\$ 68,050.40
<hr/> <hr/>			
<u>FIXED MACHINERY AND EQUIPMENT:</u>			
Gross Book Value:			
Beginning of 1956	\$ 667,146.34	\$ 629,944.35	\$ 37,201.99
Additions during year	16,305.03	16,305.03	-
Deductions during year	-	-	-
End of Year	\$ 683,451.37	\$ 646,249.38	\$ 37,201.99
<hr/> <hr/>			
Allowance for depreciation:			
Beginning of 1956	\$ 667,146.34	\$ 629,944.35	\$ 37,201.99
Deductions during year	-	-	-
Depreciation	16,305.03	16,305.03	-
End of Year	\$ 683,451.37	\$ 646,249.38	\$ 37,201.99
<hr/> <hr/>			
Net book value December 31, 1956.	-	-	-
<hr/> <hr/>			
<u>LAND:</u>			
Net book value December 31, 1956.	\$ 410,520.66	\$ 400,520.66	\$ 10,000.00
<hr/> <hr/>			
<u>TOTAL BANK PREMISES:</u>			
Net book value December 31, 1956	\$ 940,553.00	\$ 862,502.60	\$ 78,050.40
<hr/> <hr/>			

MILLION DOLLARS

MILLION DOLLARS

NET EARNINGS



NET EARNINGS AND PROFITS

	<u>1956</u>	<u>Change from 1955</u>
Total current earnings	\$14,113,276	\$+3,586,999
Net expenses	<u>4,346,585</u>	<u>+ 827,823</u>
Current net earnings	\$ 9,766,691	\$+2,759,176
Additions to current net earnings:		
Profit on sale of U.S. Government Securities held in System Open Market acct. \$ 7,371		7,409
To reverse entries in connection with construction program prior to opening our construction account		81,523
Accepted as full payment for our 60% share in the industrial loan of Clear Lake Creamery and Produce Co. which has been carried in Industrial Loans Past Due Three Months and against which a 100% valuation allowance has been provided		- 4,000
All other	<u>377</u>	<u>- 570</u>
Total additions	\$ 7,748	\$- 78,684
Deductions from current net earnings:		
Reserve for registered mail losses	\$11,458	\$- 78
All other	<u>438</u>	<u>- 1,534</u>
Total deductions	\$11,896	\$- 1,612
Net deductions from current net earnings	\$ <u>4,148</u>	\$- <u>77,072</u>
Net earnings and profits	\$ 9,762,543*	\$+2,682,104

* For disposition of profits see page No. 81.

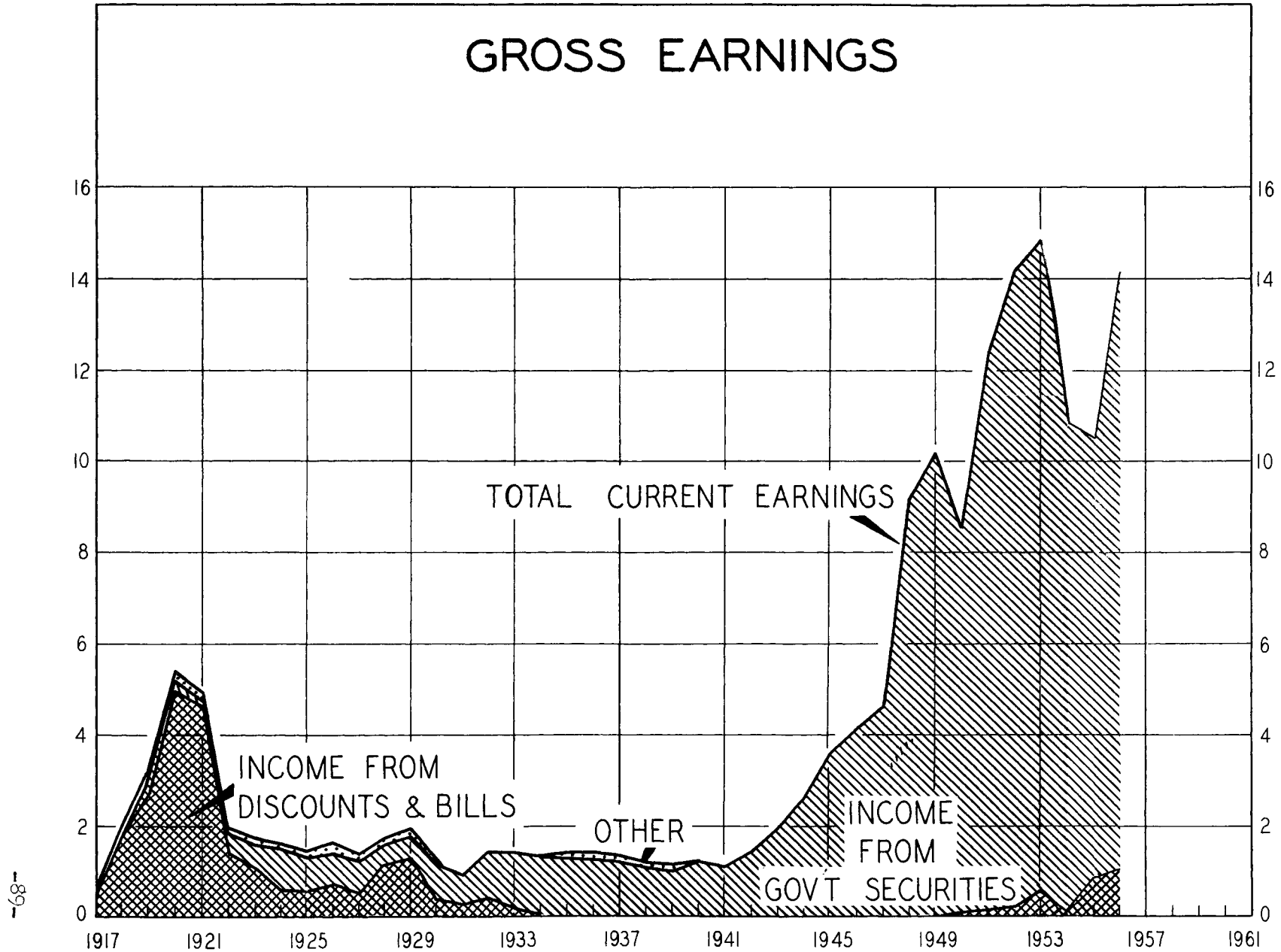
The table below gives a breakdown of Profit and Loss during 1956:

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
<u>Additions to Current Net Earnings:</u>			
Profit on sale of U. S. Government securities held in system open market account	\$ 7,370.70	\$ 7,370.70	
Adjustment of prepaid expense on three Tickometer machines purchased outright	376.74	294.93	\$ 81.81
Unclaimed overage in employee pay for May 31, 1956, period	<u>.19</u>	<u>.19</u>	<u> </u>
Total Additions	\$ 7,747.63	\$ 7,665.82	\$ 81.81
- - - -			
<u>Deductions from Current Net Earnings:</u>			
Reserve for registered mail losses	\$11,458.19	\$11,458.19	
Difference account	228.04	206.35	\$ 21.69
Difference between actual and estimated reimbursable expense for December 1956	123.17	123.17	
Loss on mutilated currency and coin	39.96	87.63	- 47.67
Loss on counterfeits	34.57	34.57	
Difference between allotment and market price on \$50,000 Treasury bills due 10/11/56, purchased to correct our error in interpreting a wired order of \$150,000	10.25	10.25	
Discount on foreign currency and coin	<u>1.59</u>	<u>1.59</u>	<u> </u>
Total Deductions	\$11,895.77	\$11,921.75	\$- 25.98
Net Deductions from Current Earnings	\$ 4,148.14	\$ 4,255.93	\$-107.79

MILLION DOLLARS

MILLION DOLLARS

GROSS EARNINGS



89

EARNINGS

Despite the fact that our daily average holdings of earning assets decreased \$44,165 thousand in 1956, earnings increased \$3,587 thousand from the previous year due to an over-all increase in our yield rate of .747%.

Borrowing by member banks was reduced from a daily average of \$42,456 thousand in 1955 to \$35,396 thousand in 1956 but because of higher rediscount rates during the past year, earnings were \$191 thousand greater.

Income from "Foreign Loans on Gold" was only \$1,756 in 1956 as compared with \$23,701 in 1955. During six of the first eleven months of 1956 we had no loans in this category. During the other five months of this same period, the loans were very nominal. In December the daily average was \$445 thousand.

During 1956 the daily average of Industrial Advances was reduced to \$51.4 thousand from the 1955 average of \$78.6 thousand. 1956 earnings amounted to \$2,591 as compared with \$3,997 in 1955.

Our daily average participation in the System Open Market account dropped from \$579,591 thousand in 1955 to \$543,940 thousand in 1956. Despite this decrease, earnings from this source increased \$3,417,433 to a total of \$13,086,845 for the year.

The following tables show the sources of earnings, average daily holdings, average earning rates and holdings of securities as of December 31, 1956.

Total Current Earnings
(Minneapolis and Helena Combined)

	<u>1956</u>	<u>Change from 1955</u>
Discounts and advances	\$ 1,008,320	\$+ 191,160
Foreign loans on gold	1,756	- 21,945
Industrial advances	2,591	- 1,406
U. S. Government securities -		
System account	13,086,845	+3,417,433
Deficient reserve penalties	11,637	+ 808
All other:		
Clearinghouse fines	239	+ 9
Commissions earned on Bankers' Acceptances purchased for foreign correspondents	1,546	+ 643
Pro-rata charges on foreign loans	342	+ 342
Miscellaneous	<u>0</u>	<u>- 45</u>
	<u>\$14,113,276</u>	<u>\$+3,586,999</u>

Average Daily Holdings

	<u>1956</u>	<u>Change from 1955</u>
Discounts and advances	\$ 35,396,478	\$- 7,059,952
Foreign loans on gold	47,063	- 1,427,298
Industrial advances	51,427	- 27,150
U. S. Government Securities -		
System account	<u>543,940,164</u>	<u>-35,650,847</u>
	<u>\$579,435,132</u>	<u>\$-44,165,247</u>

Average Earning Rate

	<u>1956</u>	<u>Change from 1955</u>
Discount and advances	2.849%	+ .924%
Foreign loans on gold	3.731	+2.123
Industrial advances	5.038	- .049
U. S. Government Securities -		
System account	2.406	+ .738
Average rate for above accounts	2.433	+ .747

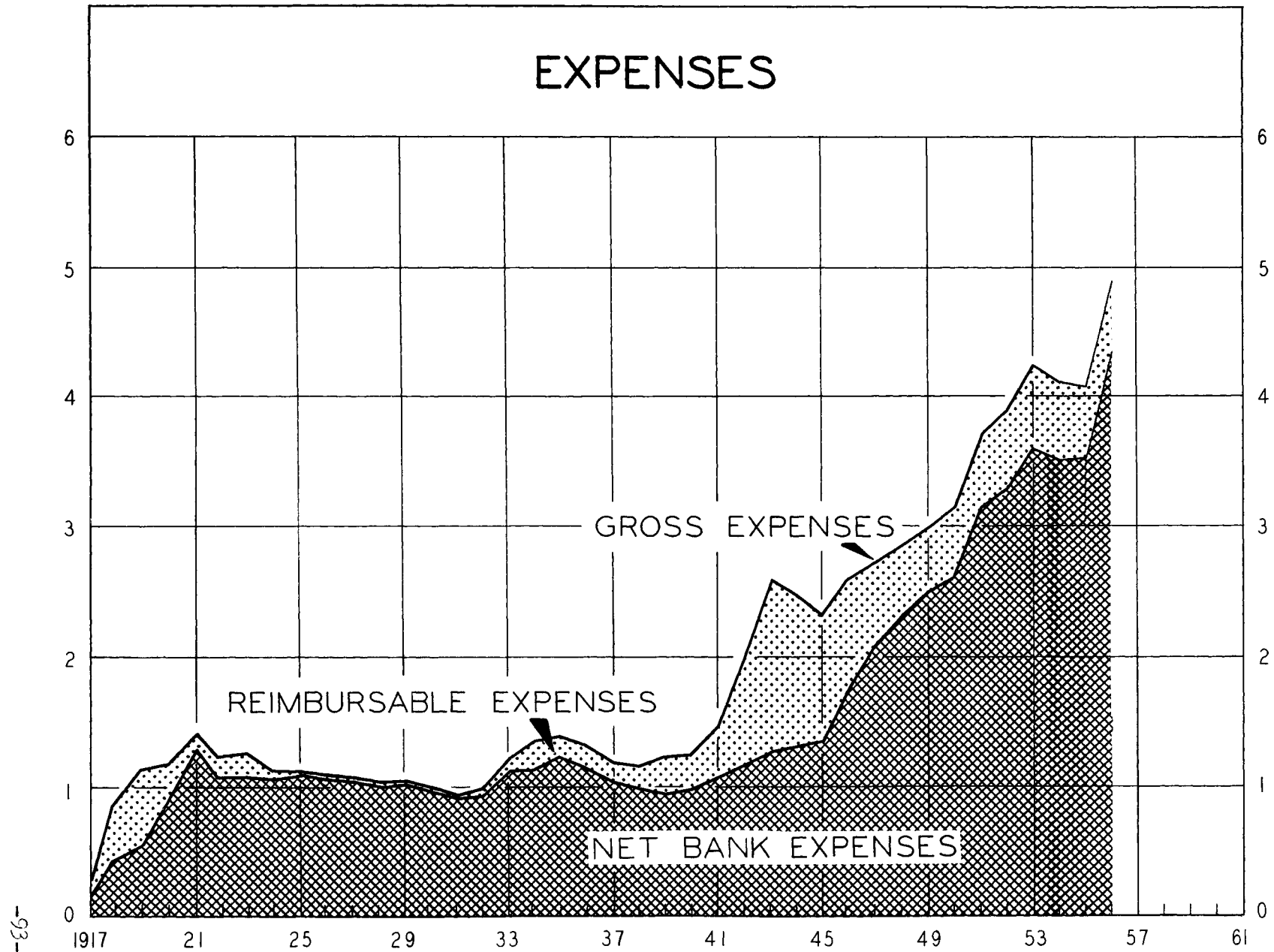
Participation in System Open Market Account
(in thousands of dollars)

	<u>12/31/56</u>	Change from <u>12/31/55</u>
Bills	\$ 38,879	\$+ 2,465
Certificates	246,937	+103,461
Notes	206,759	-136,524
Bonds	<u>63,283</u>	<u>- 4,612</u>
	\$555,858	\$- 35,210

MILLION DOLLARS

MILLION DOLLARS

EXPENSES



COMPARATIVE STATEMENT OF NET CURRENT EXPENSE

	Head Office <u>1956</u>	Helena Branch <u>1956</u>	Combined <u>1956</u>	Combined <u>1955</u>
Salaries:				
Officers	\$ 262,725	\$ 26,428	\$ 289,153	\$ 276,546
Employees	1,705,875	180,873	1,886,748	1,745,368
Fees:				
Directors	7,850	4,190	12,040	10,760
Federal Advisory Council	1,400		1,400	1,350
Other	5,627	276	5,903	3,676
Retirement Contributions:				
F.R. Retirement System	153,543	12,914	166,457	129,935
Supplemental Death Benefit	6,667	705	7,372	9,545
Social Security	33,439	3,711	37,150	34,710
Traveling Expenses:				
Directors	6,510	3,163	9,673	8,994
Federal Advisory Council	668		668	732
Other	59,069	6,067	65,136	59,250
Postage and Expressage:				
Original shipments of F.R. currency	11,079		11,079	11,895
Redemptions of FR. currency	1,988	623	2,611	2,262
Other	369,759	75,615	445,374	441,003
Telephone and Telegraph	27,938	8,080	36,018	30,578
Printing, Stationery and Supplies	127,896	11,671	139,567	112,538
Insurance	41,588	3,184	44,772	25,530
Taxes on Real Estate	160,128	5,068	165,196	105,213
Depreciation	41,971	2,020	43,991	56,111
Light, Heat, Power and Water	41,278	2,998	44,276	38,156
Repairs and Alterations	354,841	29,073	383,914	22,861
Rent	59,757	39	59,796	58,670
Furniture and Equipment:				
Purchases	161,335	20,811	182,146	28,228
Rentals	150,941	20,212	171,153	157,030
Assessment for Expenses of Board of Governors	132,600		132,600	105,000
Federal Reserve Currency:				
Original Cost	18,292		18,292	54,000
Cost of Redemption	7,322		7,322	8,047
All Other	81,867	5,478	87,345	86,390
Total Expense	<u>\$4,033,953</u>	<u>\$423,199</u>	<u>\$4,457,152</u>	<u>\$3,624,378</u>
Less Undistributed Recoveries	<u>105,531</u>	<u>5,037</u>	<u>110,568</u>	<u>105,492</u>
Net Current Expense	\$3,928,422	\$418,162	\$4,346,584	\$3,518,886

NONREIMBURSABLE EXPENSE

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$ 3,928,422	\$+750,990
Helena Branch	<u>418,162</u>	<u>+ 76,708</u>
	\$ 4,346,584	\$+827,698

Net changes in the various subdivisions of the expense accounts at the Head Office and Branch are distributed as follows:

SALARIES

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$ 1,968,600	\$+127,569
Helena Branch	<u>207,301</u>	<u>+ 26,418</u>
	\$ 2,175,901	\$+153,987

The net increase is due mainly to merit and promotional increases, plus a slight rise in the number of employees and an increase in starting salary of junior employees caused by a change in the wage and hour law.

FEES - DIRECTORS

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$ 7,850	\$+ 850
Helena Branch	<u>4,190</u>	<u>+ 430</u>
	\$12,040	\$+1,280

A larger number of executive meetings in 1956 plus 12 directors' meetings in 1956 compared with 11 in 1955 accounts for the increase at Head Office.

FEES - FEDERAL ADVISORY COUNCIL

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$1,400	\$+ 50

No important change occurred in this account.

FEES - OTHER

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$5,627	\$+ 2,343
Helena Branch	<u>276</u>	<u>- 116</u>
	\$5,903	\$+ 2,227

Head Office figures include \$962 for our pro rata share of the cost of a special review of the retirement system plus \$1,757 paid for complete medical examinations for officers. Both of these items were new expense in 1956.

RETIREMENT CONTRIBUTIONS

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$153,543	\$+35,459
Helena Branch	<u>12,914</u>	<u>+ 1,063</u>
	\$166,457	\$+36,522

The increase reflects a \$28,280 special contribution for a retiring officer plus a change making new employees members of the Retirement System after one month's service rather than after a three-month period. Since contributions are in direct relation to salary costs, larger salary expense in 1956 also added to the increase.

SUPPLEMENTAL DEATH BENEFIT

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$6,667	\$-1,985
Helena Branch	<u>705</u>	<u>- 188</u>
	\$7,372	\$-2,173

An increased premium refund in 1956 accounts for the decrease.

SOCIAL SECURITY

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$33,439	\$+1,909
Helena Branch	<u>3,711</u>	<u>+ 531</u>
	\$37,150	\$+2,440

Due to increased salary costs.

TRAVEL - DIRECTORS

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$6,510	\$+347
Helena Branch	<u>3,163</u>	<u>+332</u>
	\$9,673	\$+679

There was no material change in this account.

TRAVEL - FEDERAL ADVISORY COUNCIL

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$668	\$-64

In 1956 our council member or alternate attended a combined total of four out-of-town meetings.

TRAVEL - OTHER

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$59,069	\$+6,880
Helena Branch	<u>6,067</u>	<u>- 994</u>
	\$65,136	\$+5,886

The increase at Head Office is accounted for as follows:

	<u>1956</u>	<u>1955</u>
Bank Examination	\$27,445	\$+4,077
Public Services	14,142	+1,907
Travel on general bank business (schools, conventions, conferences, etc.)	<u>17,482</u>	<u>+ 896</u>
	\$59,069	\$+6,880

POSTAGE AND EMPRESSAGE
Original Shipments
F.R. Currency

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$11,079	\$-816

No material change in this account.

POSTAGE AND EXPRESSAGE
Redemption
F.R. Currency

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$1,988	\$+392
Helena Branch	<u>623</u>	<u>- 43</u>
	\$2,611	\$+349

No material change in this account.

POSTAGE AND EXPRESSAGE
Other

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$369,759	\$+3,709
Helena Branch	<u>75,615</u>	<u>+ 662</u>
	\$445,374	\$+4,371

The bulk of the increase at Head Office is due to moving charges in connection with our building program.

TELEPHONE AND TELEGRAPH

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$27,938	\$+4,408
Helena Branch	<u>8,080</u>	<u>+1,032</u>
	\$36,018	\$+5,440

Our pro rata share of installation and rental costs for additional equipment for the improved method for sending and receiving transfer of funds, transfers of securities, and allotment transfers of securities, in clear language rather than code accounts for the increase.

PRINTING, STATIONERY AND SUPPLIES

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$127,896	\$+24,771
Helena Branch	<u>11,671</u>	<u>+ 2,258</u>
	\$139,567	\$+27,029

During 1955 purchases were curtailed because of a shortage of storage space due to our building program. In 1956, as the space shortage eased, we again started buying in larger quantities to take advantage of the price differential for quantity buying.

INSURANCE

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$41,588	\$+19,103
Helena Branch	<u>3,184</u>	<u>+ 139</u>
	\$44,772	\$+19,242

The increase at Head Office is the net result of the following:

	<u>1956</u>	<u>1955</u>
Hospital & Surgical	\$21,879	\$+8,145
Bankers Blanket Bond	2,622	+ 17
Workmen's Compensation	4,640	+1,773
Comprehensive public and automobile liability	1,224	- 302
Building and Contents	10,784	+9,500
Other	<u>439</u>	<u>- 30</u>
	\$41,588	\$+19,103

TAXES ON REAL ESTATE

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$160,128	\$+59,795
Helena Branch	<u>5,068</u>	<u>+ 188</u>
	\$165,196	\$+59,983

Because of the building program at Head Office, its assessed valuation on the partially completed structure increased from \$640,000. in 1955 to \$986,000 in 1956. The tax rate increased 9.86 mills.

DEPRECIATION

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$41,971	\$-12,120
Helena Branch	<u>2,020</u>	<u>- 0</u>
	\$43,991	\$-12,120

Normal depreciation of 2% per annum on building was taken at both Head Office and Helena Branch. At the beginning of the year the Fixed Machinery and Equipment at both offices was fully depreciated. During the year \$16,305 was added to the Head Office Fixed Machinery and Equipment account and was fully depreciated by year end.

LIGHT, HEAT, POWER AND WATER

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$41,278	\$+6,206
Helena Branch	<u>2,998</u>	<u>- 86</u>
	\$44,276	\$+6,120

The main reason for the increase was the necessity for heating the building during cold months at a time when the second and third floors, as well as other areas, had only temporary protection from the weather because of our building program.

REPAIRS AND ALTERATIONS

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$354,841	\$+334,441
Helena Branch	<u>29,073</u>	<u>+ 26,612</u>
	\$383,914	\$+361,053

The Head Office figure includes \$350,000 transferred from our construction account, and the Helena Branch figure includes coin vault alterations costing \$27,120.

RENT

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$59,757	\$+1,128
Helena Branch	<u>39</u>	<u>- 2</u>
	\$59,796	\$+1,126

No material change in this account.

FURNITURE AND EQUIPMENT
Purchases

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$161,335	\$+138,515
Helena Branch	<u>20,811</u>	<u>+ 15,403</u>
	\$182,146	\$+153,918

Head Office purchases include the following:

Movable steel partitions	\$ 52,214
Transferred from Construction Account (mainly cafeteria equipment)	56,055
Desks, tables, chairs, adding machines, typewriters, files, etc., and outside cost of repairs to furniture and equipment	<u>53,066</u>
	\$161,335

Helena Branch purchases include the following:

Armored car	\$ 5,646
Coin handling equipment	7,335
Passenger car	2,992
Accounting machine	1,713
Miscellaneous	<u>3,125</u>
	\$ 20,811

FURNITURE AND EQUIPMENT
Rental

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$150,941	\$+11,686
Helena Branch	<u>20,212</u>	<u>+ 2,437</u>
	\$171,153	\$+14,123

Head Office costs increased due to rental of cars to handle suburban bank clearings, plus substitution of some 32-pocket I. B. M. machines for 24-pocket machines.

Helena Branch check collection activities required rental of two additional I. B. M. proof machines.

BOARD ASSESSMENT

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$132,600	\$+27,600

This represents our bank's pro rata share paid to the Board of Governors of the Federal Reserve System to cover its general expenses.

FEDERAL RESERVE CURRENCY
Original Cost

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$18,292	\$-35,708

Because of our large stock of Federal Reserve Notes, very few were printed for us in 1956.

FEDERAL RESERVE CURRENCY
Cost of Redemption

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$7,322	\$-725

No material change in this account.

ALL OTHER

	<u>1956</u>	<u>Change from 1955</u>
Head Office	\$81,867	\$- 414
Helena Branch	<u>5,478</u>	<u>+1,369</u>
	\$87,345	\$+ 955

Expense for extending the electric burglar alarm system at the Helena Branch accounts for this increase.

COMBINED REIMBURSABLE EXPENDITURES OR RECOVERIES

<u>Account of</u>	<u>1956</u>	<u>Change from 1955</u>
Public Debt	\$401,950	\$-28,071
Federal Taxes	32,197	+ 1,460
Department of the Army	265	- 247
Department of the Navy	188	+ 153
Department of the Air Force	18	- 274
Atomic Energy Commission	203	- 401
Commodity Credit Corporation	14,235	+ 1,528
F.R.B. Chicago, Fiscal Agent for R.F.C.	514	- 76
Federal Farm Mortgage Corporation	8	+ 3
Federal Land Banks	429	+ 213
Federal Intermediate Credit Banks	42	- 24
Central Banks for Cooperatives	9	- 2
Federal Home Loan Banks	49	- 531
Federal Public Housing Administration	6	- 9
Federal National Mortgage Association	27	- 1,611
Coin Wrapping Services	17,423	+ 872
Processing Post Office Money Orders	20,042	+ 2,142
Destruction of Unfit U. S. Currency	5,794	- 619
Foreign Assets Control	181	+ 181
Miscellaneous	29,890	+ 7,422
Profit and Loss - over-estimate of Reimbursable Expense	<u>929</u>	<u>+ 806</u>
	\$524,399	\$-17,085