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MEMBER BANK INCOME, 1966

Summaries of preliminary figures for income and expenses reported by Federal Reserve member banks for the calendar year 1966 show that net income after taxes rose 5 per cent over the previous year. A marked increase in gross revenues, due primarily to larger loan portfolios and also to a higher average return on loans, was largely offset by increases in bank expenses. Interest paid on time and savings deposits was responsible for most of the higher costs. The ratio of net current earnings before taxes to average total capital accounts rose to 16.2 in 1966, the highest level since 1962.

The net effect of security transactions, other profit and loss adjustments on loans and other assets, and changes in valuation reserves was to reduce net income by \$1,051 million, a record net reduction. Greater losses on securities sold accounted for most of the larger net reduction. The ratio of net income after taxes to average total capital accounts, at 8.6 per cent, was down slightly from 1965.

Gross current operating revenue increased about 16 per cent, or by \$2,232 million. Loan revenue accounted for about four-fifths of the rise. Although the average rate of return on U. S. Government securities increased, average holdings declined so that revenue from this source was slightly lower than the previous year. The \$186 million increase in revenue from other securities over the previous year resulted from a higher average rate of return and some increase in the average holdings of these types of securities.

Total expenses were nearly 17 per cent, or \$1,729 million, higher than 1965. Over three-fifths, \$1,001 million, of this increase came as a result of an increase in interest payments on time deposits. The 25 per cent increase in interest paid by banks resulted from large increases in both the average rate paid on time deposits and in average holdings of these liabilities. Salaries, wages, and other employee benefits rose \$323 million and all other expenses \$405 million.

Net current earnings before income taxes were \$4,139 million, about 14 per cent higher than in 1965. After the reduction of \$1,051 million for the net effect of non-operating transactions mentioned above, net income before taxes rose only \$106 million.

Taxes on net income were \$886 million, about the same as in 1965. Net income after taxes rose to \$2,203 million, \$100 million higher than 1965.

(Over)

MEMBER BANK INCOME, BY CLASS OF BANK, 1966 AND 1965
(In millions of dollars. 1966 figures preliminary)

	All member banks		Reserve city banks						Country banks	
	1966	1965	New York City		City of Chicago		Other		1966	1965
			1966	1965	1966	1965	1966	1965		
Revenue:	16,074	13,842	2,775	2,296	689	576	6,035	5,240	6,575	5,730
On U.S. Government securities	1,702	1,686	175	180	58	60	519	549	950	897
On other securities	1,265	1,079	210	204	52	52	447	374	557	448
On loans <u>1/</u>	11,087	9,295	1,986	1,563	478	382	4,284	3,616	4,339	3,734
All other	2,020	1,781	405	349	101	82	786	700	729	651
Expenses:	11,935	10,206	1,976	1,607	479	401	4,500	3,871	4,980	4,327
Salaries, wages, and benefits	3,795	3,472	580	533	133	119	1,421	1,302	1,661	1,518
Interest on time deposits	5,215	4,214	949	713	231	192	1,992	1,632	2,043	1,677
All other	2,925	2,520	447	362	116	90	1,087	937	1,275	1,131
Net current earnings before income taxes	4,139	3,635	800	688	209	175	1,535	1,369	1,595	1,403
Recoveries, transfers from valuation reserves, and profits <u>2/</u>	277	330	19	34	28	29	138	137	92	130
Losses, charge-offs, and transfers to valuation reserves <u>3/</u>	1,328	982	282	217	77	40	513	361	456	365
Net income before related taxes	3,089	2,983	537	506	161	165	1,160	1,144	1,231	1,168
Taxes on net income	886	880	154	131	51	51	351	358	330	340
Net income	2,203	2,103	383	375	110	114	808	787	901	828
Cash dividends declared	1,144	1,058	259	240	49	45	453	426	383	347
Ratios (per cent):										
Net current earnings before income taxes to average total capital accounts	16.2	15.1	15.4	14.1	18.1	16.0	16.6	15.6	15.9	15.1
Net income to average total capital accounts	8.6	8.7	7.4	7.7	9.5	10.4	8.7	9.0	9.0	8.9
Average return on U.S. Govt. securities	4.03	3.69	3.62	3.32	3.64	3.38	3.95	3.69	4.20	3.80
Average return on other securities	3.29	3.11	3.42	3.26	3.31	3.25	3.37	3.17	3.19	2.99
Average return on loans	6.25	5.85	5.68	5.13	5.64	5.05	6.33	5.90	6.55	6.28
Interest on time to average time deposits	4.13	3.73	5.09	4.23	4.58	3.99	4.16	3.81	3.74	3.46

1/ Includes charges on loans other than interest.

2/ Does not include recoveries credited directly to valuation reserves.

3/ Does not include losses charged directly to valuation reserves.

(Over)