

Overview of Approximate Percentage Distribution of Bank Operating Income, Operating Expenses, and Profitability (Late 1980s)

| | Large Bank % | Small Bank % |
|---|-----------------|-----------------|
| <i>Income</i> | | |
| interest on loans | 80 | 50 |
| interest on securities | 8 | 25 |
| interest on Fed funds sold | 2 | 10 |
| trust dept. income | 2 | 6 |
| service charges, fees, other | <u>8</u> | <u>9</u> |
| | 100 | 100 |
| <i>Expenses</i> | | |
| salaries and wages | 12 | 24 |
| interest on deposits (all) | 25 | 40 |
| interest on borrowed funds | 40 | <1 |
| provision for loan losses | 5 | 5 |
| occupancy expenses | 4 | 8 |
| all other expenses (including income taxes) | <u>14</u> | <u>22</u> |
| | 100 | 100 |

Profitability

Return on Assets (ROA) = net income/total assets: how much net income per dollar of assets

In recent years ROA has fluctuated between about 0.6% and 0.9%, but with a lot of variability for individual banks.

Return on Equity (ROE) = net income/bank capital, or owners equity. ROE indicates the amount of net income per dollar of "ownership value" in the banking corporation.

In recent years ROE has ranged between 10% and 15%, but with significant variability among individual banks.

Note: Latest figures on bank income, expenses, and profitability can be found in: Federal Deposit Insurance Corporation *Bank Operating Statistics* (annual).