Charles Logan

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF
ADMINISTRATIVE SERVICES

August 12, 1970

NOTICE

The enclosed article entitled "Member Bank Income, 1969" appeared in the July issue of the Federal Reserve Bulletin. The usual preliminary press release on this subject, designated C.4, which you are listed to receive, will not be issued. This reprint is being sent in its place.

Major changes in the reporting of bank income and expenses for 1969 as described in the Appendix to the article, precluded adequate coverage and treatment of the subject in a press release.

Publications Services,
Division of Administrative Services.

Member Bank Income, 1969

Growth of member bank earnings in 1969 reflected the effects of strong demands for credit in a period of increased monetary restraint. Constraints on the supply of loanable funds relative to demand led to much higher interest rates during the year. These higher rates contributed to a rapid rise not only in the average yield on earning assets but also in the average cost of deposits and nondeposit sources of funds. However, the dollar rise in revenues exceeded that in expenses, and net income of member banks rose to a level exceeding that in any previous year.

Accurate comparisons between earnings data for 1969 and those for earlier years are not possible because of extensive changes in the method of reporting bank earnings that were introduced by supervisory authorities in 1969. To provide a basis for analysis of earnings trends, it has been necessary to reconstruct the earnings data for 1968 so as to correspond as closely as possible with the 1969 reporting format. For most items of operating income and expenses, the statistics can be made roughly comparable. In a few cases, however, the corresponding 1968 items had to be either estimated or omitted. Moreover, in using the 1968 figures readers should note that it was not possible to adjust them for inclusion of earnings from domestic subsidiaries or for changes in accounting methods. However, these factors probably had a relatively minor effect on earnings in 1969.

A description of the changes in reporting procedures is given in the appendix on pp. 571 and 572 and a discussion of the bases of the estimates appears in the notes to Table 1.

SUMMARY

As in other recent years, most of the rise in gross operating revenue of member banks in 1969 was attributable to income from loans. Such receipts increased half again as much in 1969 as in 1968 and accounted for more than seven-tenths of all operating income—compared with about two-thirds in 1968. While some of this growth reflected a further expansion in volume of loans outstanding, most of it was attributable to the highest average rate of return on loans in more than 40 years. Interest income on securities rose only moderately, with the increase in the average yield that accompanied the general rise in market rates being partially offset by a small decline in average holdings from 1968 to 1969.

Operating costs rose at about the same rate as revenue; nearly all types registered some increase. Interest paid on time and savings deposits, the largest single component of expenses, increased more slowly than in the preceding year. Reflecting in part the run-off of large denomination certificates of deposit, average holdings of time and savings deposits showed the smallest growth of any recent year. However, the average rate of interest paid on these deposits rose more rapidly than in the preceding year.

The reduced growth in time and savings deposits in 1969 forced banks to turn to other, and more costly, sources for loanable funds. One of these was increased borrowing—directly from the Federal Reserve Banks, from other banks in the form of Federal funds purchased, and in Euro-dollar deposits

NOTE.—This article was prepared by Caroline H. Cagle of the Board's Division of Research and Statistics.

REPRINTED FROM
FEDERAL RESERVE BULLETIN
FOR JULY 1970

acquired from the bank's own foreign branches or from other sources. As a result, interest on borrowed money showed the highest rate of increase of any expense item in 1969. Although only a small part of total expenses, this item was three times the 1968 figure, and it accounted for about one-third of the total increase in expenses.

TABLE 1

CONSOLIDATED REPORT OF INCOME FOR 1969 FOR ALL MEMBER BANKS AND RESTATEMENT OF DATA REPORTED FOR 1968 TO 1969 CONCEPT

Item	1969		1968 (Restated & partly estimated)		Change, 1968–69	
	In millions of dollars	Per cent of total operating income	In millions of dollars	Per cent of total operating income	In millions of dollars	Per cent
Operating income—Total	**24,992**	**100.0**	**20,819**	**100.0**	**4,173**	**20.0**
Loans:						
Interest and fees	17,105	68.4	14,143	67.9	3,611	25.5
Other income on Federal funds sold & securities purchased under resale agreement	649	2.6				
Securities:						
Including trading-account income—total	(4,400)	(17.6)	(4,137)	(19.9)	(263)	(6.4)
Excluding trading-account income—total	4,263					
U.S. Treasury securities	2,041	8.2	*2,208	10.6	−167	−7.6
U.S. Govt. agencies & corporations	322	1.3	*1,929	9.3	293	15.2
States & political subdivisions	1,794	7.2				
Other securities	106	.4				
Trust department income	972	3.9	880	4.2	92	10.5
Service charges on deposit accounts	835	3.3	803	3.9	32	4.0
Other charges, fees, etc.	557	2.2	371	1.8	186	50.1
Other operating income:						
On trading account (net)	137	.5	....	....	137	....
Other	473	1.9	486	2.3	−13	−2.7
Operating expenses—Total	**19,525**	**78.1**	**16,189**	**77.8**	**3,336**	**20.6**
Salaries and wage of officers & employees	4,690	18.8	4,097	19.7	593	14.5
Officer and employee benefits	749	3.0	633	3.0	116	18.3
Interest on—						
Time & savings deposits	7,884	31.5	7,108	34.1	776	10.9
Federal funds purchased & secs. sold under repurchase agreements	1,177	4.7	[1] 510	2.4	1,085	212.7
Other borrowed money	418	1.7				
Capital notes and debentures	89	.4	[1] 95	.5	−6	−6.3
Net occupancy expense	867	3.5	783	3.8	84	10.7
Furniture, equipment, etc.	615	2.5	506	2.4	109	21.5
Provision for loan losses	381	1.5	[e]343	1.6	[e]38	11.1
Other operating expenses	2,655	10.6	2,114	10.2	541	25.6
Income before income taxes & securities gains or losses	5,467	21.9	4,630	22.2	837	18.1
Applicable income taxes	1,813	7.3	[e]1,479	7.1	[e]334	22.6
Income before securities gains & losses	3,654	14.6	3,151	15.1	503	16.0
Net securities gains (+) or losses (−) after tax	−209	−.8	[e]−189	−.9	[e]20	10.6
Extraordinary charges (−) or credits (+) after taxes	5	(2)	n.a.	n.a.	5	....
Less minority interest in consolidated subsidiaries	(3)	(2)	n.a.	n.a.	....	....
Net income	3,450	13.8	2,962	14.2	488	16.5
Cash dividends declared [4]	1,523	....	[1] 1,299	....	224	17.2

n.a. Not available but not likely to be large enough to affect results significantly.

[1] Partly estimated. In 1968 banks reported as a single item interest on capital notes and debentures and dividends on preferred stock. A breakdown of these items was estimated by assuming that the average rate of interest or dividends paid on these securities would be about the same in 1968 as in 1969 and relating these rates to average 1968 outstandings of these securities. (A part of the amount of interest on capital notes and debentures—about $6 million—is believed to have been reported in 1968 in "other interest on borrowed money" and an adjustment of this amount has been made in the reported figure for "interest on borrowed money.")

[2] Less than .05 per cent.

[3] Less than $500,000.

[4] On common and preferred stock.

[e] The following items were not reported in 1968 but were estimated (or partly estimated) as follows:

(a) Provision for loan losses. This was derived by computing from reported figures the average ratio of actual net losses on loans to gross loans outstanding for the 5 years 1964–68 and relating this ratio to average gross loans outstanding in 1968. This was one of the methods which banks were instructed to use and the one which appears to have been used by a majority of the banks.

(b) Income taxes applicable to operating earnings were estimated by adding to the 1968 income taxes as reported the tax effects of (1) transfers to reserve for bad debt losses on loans (set up in accordance with Internal Revenue Service requirements and increases in which are a deduction from income subject to Federal income taxes) and (2) net losses on securities sold. In estimating the tax effect of these two items it was assumed that the effect would represent the same percentage of the before-tax figures in 1968 as in 1969.

* Includes income from trading accounts shown in other operating income in 1969.

NOTE.—Figures for 1969 exclude one trust company without deposits and one national bank located outside the continental United States. Data for 1968 were not adjusted to exclude these banks because the combined figures for them were a relatively small part of the total and because of the possibility of disclosure of data for individual banks. The effect of this is to understate the changes from 1968 to 1969 shown in the last two columns of the table. Figures may not add to totals because of rounding.

Most of the remaining growth in 1969 operating costs came from higher salaries, wages, and employee benefits. These also expanded at a more rapid pace than in 1968.

Applicable income taxes were about one-third of operating income before taxes in 1969, and net losses on sale of securities (after taxes) were about 4 per cent of such income. Income taxes on current earnings and losses on securities were both higher in 1969 than in the preceding year.

Cash dividends declared in 1969 amounted to $1,523 million—substantially above the preceding year. The ratio of dividends to capital accounts rose from 4.5 to 4.9 per cent.

Net income (after securities losses, extraordinary charges or credits, and all taxes) of $3,450 million was just over 10 per cent of equity capital plus all reserves. As a percentage of total capital accounts—one of the standard bases for comparing net income in earlier years—it was 11 per cent, higher than in any previous year.[1]

OPERATING REVENUE

Total operating revenue of member banks increased to a new high of nearly $25.0 billion in 1969—$4.2 billion, or 20.0 per cent, greater than in 1968 (Table 1). This compares with an increase of 16.6 per cent in 1968. Income from loans amounted to $17.7 billion, about one-fourth more than in 1968. This represented nearly nine-tenths of the total increase in operating revenue. Receipts from loans have increased markedly as a source of operating income in the last quarter of a century. At the end of World War II such earnings accounted for about one-fourth of the total; in 1969 this proportion was more than seven-tenths.

The sharp increase in earnings on loans in 1969 reflected mainly the unprecedented rate of return on loans augmented by some further growth in average loans outstanding. During the year, the prime rate on loans to businesses was increased three times—from a low of 6¾ per cent at the beginning of the year to 8½ per cent in early June. Upward adjustments in rates on other loans also were quite general. The yield on average loans outstanding was 7.56 per cent—90 basis points above the figure for 1968 (Table 2). The average volume of loans outstanding rose by about $23 billion, or 11 per cent, (Table 3) compared with an increase of about 9 per cent in 1968.

Banks earned $4,263 million in interest on securities held in investment account and $137 million on those in trading account in 1969. Although the increase was relatively small—$263 million—such earnings accounted for 18 per cent of total operating revenue. This moderate growth reflected an increase in yield offset by a small reduction in average holdings. To obtain funds for making loans under conditions of constricted deposit inflows—or in many cases actual attrition in deposits—banks reduced their portfolios of securities, particularly

TABLE 2
SELECTED MEMBER BANK INCOME RATIOS

In per cent

Ratio	1968[1]	1969
Ratios to equity capital (including reserves):		
Income before securities gains & losses...	10.04	10.70
Net income...	9.43	10.10
Cash dividends declared[2]...	4.14	4.46
Rates of return on—		
Loans, gross...	6.66	7.56
U.S. Treasury securities[3]...	4.79	4.89
U.S. Govt. agencies and corporations[3]...	}	5.64 }
State and local government obligations[3]...	} 3.67	3.81 } 4.07
Other securities[3]...	}	5.58 }
Interest on time deposits to total time deposits	4.56	4.98

[1] Data for 1968 are not entirely comparable with those for 1969 because of changes in reporting procedures. See appendix on pp. 571 and 572. Ratios for 1968 are based on restated 1968 income figures.

[2] On common and preferred stock.

[3] Ratios for 1969 based on bank's own investment account—excluding trading account. Ratios for 1968 include trading account.

NOTE.—These ratios were computed from aggregate dollar amounts of income and expense items. The capital, deposits, loans, and securities items on which these ratios were based were averages for three call dates for each year.

[1] Data on capital and reserve accounts in 1969 are shown in Table 3.

U.S. Government securities, average holdings of which were $3.7 billion less in 1969 than in 1968. Income from these securities declined by $167 million, or 7.6 per cent, even though the average interest return on such securities (4.89 per cent) was slightly higher than in 1968.[2]

Earnings from all other securities rose by $293 million, or 15 per cent, in 1969. Growth of $3.6 billion in average holdings of State and local government securities and of $52 million in Federal agency securities was partly offset by a small decline in other investments.[3] Reflecting the increases in money market rates, the average yield on securities other than U.S. Government obligations rose by 40 basis points to 4.07 per cent in 1969. The vast majority of these securities are State and local obligations, the income from which is exempt from Federal income taxes. With income taxes relative to taxable earnings averaging roughly 50 per cent, the after-tax equivalent yield on State and local obligations in 1969 appears to have been about the same as that on loans.

Earnings from sources other than loans and investments, which accounted for about 11 per cent of all operating revenue, expanded by 12 per cent in 1969. A sizable part of the increase reflected trust department income, which continued its steady upward movement to a total of $972 million, or nearly 11 per cent more than in 1968. Service charges on deposit accounts ($835 million) produced only slightly more revenue than in 1968, but other charges and fees rose by 50 per cent to $557 million. The latter group includes a wide variety of collection and exchange charges, and commissions and fees, including income from equipment leasing and from certain types of loan servicing. Other operating revenue totaled $610 million. This included $137 million of net income from trading account, which was classified with interest on investment securities in 1968. The residual of other operating income showed a small decline from 1968 to 1969. But this item as well as "other charges, fees, etc." is not strictly comparable with earlier years because of changes in reporting procedures.

TABLE 3

CHANGES IN MEMBER BANK AVERAGE LOANS, INVESTMENTS, AND CAPITAL OUTSTANDING IN 1969

Amounts shown in millions of dollars

Item	Average amount, 1969[1]	Change from 1968 average	
		Amount	Percentage
Total loans and investments, gross[2]	**333,322**	**22,498**	**7.2**
Loans, gross[2]	234,920	22,668	10.7
Commercial and industrial	92,428	9,297	11.2
Agricultural	6,154	250	4.2
For purchasing and carrying securities	8,906	219	2.5
To financial institutions	15,449	1,707	12.4
Real estate	52,227	4,197	8.7
Other loans to individuals	47,140	4,381	10.2
All other[2]	12,616	2,618	26.2
U.S. Treasury securities[3]	42,368	−3,703	−8.0
U.S. Govt. agencies and corporations[3]	6,033	52	.9
States and political subdivisions[3]	48,094	3,646	8.2
Other securities[3]	1,907	−165	−8.0
Equity capital[4]	29,318	2,166	8.0
Total capital accounts[5]	31,140	2,049	7.0
Reserves on loans and securities	4,833	590	13.9
Total equity capital and reserves	34,151	2,756	8.8

[1] Averages of figures for three call dates for each year. The 1969 data were reported on a consolidated basis; data on a consolidated basis were not available for 1968.

[2] Includes Federal funds sold and securities purchased under resale agreement, not shown separately.

[3] Includes securities in trading account in 1968 and 1969.

[4] Includes common stock, preferred stock, surplus, undivided profits, and reserves for contingencies and other capital reserves.

[5] Includes equity capital plus capital notes and debentures.

NOTE.—Details may not add to totals because of rounding.

OPERATING EXPENSES

While operating income of member banks was rising rapidly, so also were operating costs. Such expenses totaled $19.5 billion, 20.6 per cent more than in 1968. A major part of the increase represented the larger

[2] Income from trading accounts securities is not available separately by type of security in 1969; and prior to 1969, such income was lumped with income from investment account. For this reason earnings by type of security are not wholly comparable in 1968 and 1969.

[3] The decline in holdings of "other securities" reflects the effects of consolidated reporting in 1969.

amount of interest paid on time and savings deposits and on borrowed money.

Interest on time and savings deposits, the largest expense item, amounted to $7.9 billion. The increase of $776 million, or 11 per cent, however, was only three-fourths as large as in 1968. Time deposits expanded only $2.1 billion, or 1 per cent on the average in 1969—much less than in other recent years. An appreciable further growth at smaller banks was offset in good part by a decline at large banks, mainly because of a substantial reduction in large negotiable CD's. The average interest rate paid on all time and savings deposits rose 42 basis points to a new high of 4.98 per cent in 1969, even though Regulation Q ceiling rates remained unchanged after April 1968. This rise reflected in large part the more persistent tendency for offering rates to press against ceilings in 1969 than in 1968 as well as a sizable shift of deposits out of regular savings accounts, on which most banks paid a 4 per cent rate, into other time deposits—mainly consumer-type, special 90-day-notice accounts—on which most banks paid 5 per cent.

The largest percentage increase in expenses was in interest on borrowed money. In this year of heavy loan demand and continued monetary and credit restraint, member banks made increased use of borrowed funds. The interest paid on these borrowings rose to nearly $1.6 billion—three times the amount in 1968. Nearly three-fourths of this total represented interest on Federal funds purchased and on securities sold under repurchase agreements. The increase in this expense reflected both a much higher average level of such borrowing than in 1968 and much higher rates paid; the average cost in 1969 was 8.22 per cent compared with 5.66 per cent in 1968. Member bank borrowings from Federal Reserve Banks also rose, and in April the discount rate applicable to these borrowings was raised from 5½ to 6 per cent. In addition to funds from these sources, some of the largest banks greatly expanded their Euro-dollar borrowings, and rates paid on these funds were substantially above the cost of short-term funds in the domestic market.

Salaries and wages climbed by nearly 15 per cent to $4,690 million in 1969 and accounted for about one-fourth of total operating expenses. The number of employees increased by 7 per cent—slightly more than the expansion in 1968—and average salaries also rose more rapidly than in the preceding year. Employee benefits of $749 million, which were 18 per cent above a year earlier, contributed to the further increase in employee costs.

In 1969, for the first time, reported figures for operating expenses included a minimum provision for loan losses. This was computed as either (1) an allowance for probable losses on loans or (2) if the bank preferred, a figure representing its actual net loan losses for the year. The amount of the minimum allowance could be determined by one of several methods prescribed by the bank supervisory authorities. Larger amounts than determined by these methods were permitted. The method that a majority of the banks appear to have used was an average of the ratio of actual net loan losses to average loans outstanding for a 5-year period (including the current year), which the banks then applied to average loans outstanding in the current year. The reported provision of $381 million for loan losses in 1969 was 11 per cent above the estimated figure computed in this manner for 1968.

Actual net losses on loans in 1969—derived from the data reported by banks—amounted to about $380 million. This is the sum of (1) net losses charged to reserves for losses on loans (that is, losses charged less recoveries credited to these reserves) for banks reporting on a reserve-accounting method and (2) for all other banks the amount reported as an expense item, described above. The 1969 figure was $58 million, or 18 per cent, greater than in 1968 and was larger than in any other recent year. Gross losses charged to reserves increased by 9 per cent, and recoveries declined at about the same rate.

"Other" operating expenses of $2,655 million were one-fourth greater than in 1969. Because of changes in reporting, this item may not be strictly comparable with earlier years.

TABLE 4

CONSOLIDATED REPORT OF INCOME FOR 1969 FOR MEMBER BANKS GROUPED BY CLASS

In millions of dollars

Item	All member banks	Reserve city			Country
		New York City	City of Chicago	Other	
Operating income—Total	**24,992**	**4,668**	**1,085**	**9,332**	**9,907**
Loans:					
Interest and fees	17,105	3,324	765	6,642	6,374
Other income on Federal funds sold & securities purchased under resale agreement	649	116	30	221	283
Securities:					
Excluding trading-account income:					
U.S. Treasury securities	2,041	247	70	598	1,125
U.S. Govt. agencies & corporations	322	16	4	54	248
States & political subdivisions	1,794	258	71	635	830
Other securities	106	20	5	39	41
Trust department income	972	309	71	374	218
Service charges on deposit accounts	835	61	5	313	457
Other charges, fees, etc.	557	83	18	254	202
Other operating income:					
On trading account (net)	137	56	27	50	5
Other	473	178	20	152	122
Operating expenses—Total	**19,525**	**3,650**	**849**	**7,326**	**7,700**
Salaries and wages of officers & employees	4,690	794	156	1,762	1,978
Officer and employee benefits	749	145	30	283	290
Interest on—					
Time & savings deposits	7,884	1,419	381	2,839	3,245
Federal funds purchased & securities sold under repurchase agreements	1,177	366	106	592	112
Other borrowed money	418	126	31	227	35
Capital notes and debentures	89	29	2	39	19
Net occupancy expense	867	160	27	311	369
Furniture, equipment, etc.	615	73	19	239	285
Provision for loan losses	381	48	13	132	187
Other operating expenses	2,655	491	83	901	1,179
Income before income taxes & securities gains or losses	5,467	1,018	236	2,005	2,208
Applicable income taxes	1,813	390	81	679	663
Income before securities gains & losses	3,654	628	156	1,326	1,544
Net securities gains (+) or losses (−) after taxes	−209	−78	−7	−75	−49
Extraordinary charges (−) or credits (+) after taxes	5	(1)	2	2	2
Less minority interest in consolidated subsidiaries	(1)	....	....	(1)	(1)
Net income	3,450	551	150	1,252	1,496
Cash dividends declared	1,523	345	70	593	515

1 Less than $500,000.

NOTE.—Figures may not add to totals because of rounding.

OTHER TRANSACTIONS

In the new procedures for reporting bank earnings and expenses, losses on loans have been removed from nonoperating transactions and—as indicated above—a provision for loan losses (or actual net loan losses) has been included in operating expenses. Other transactions now consist only of gains or losses on securities sold and certain extraordinary charges or credits.

In 1969 net losses on securities sold amounted to $460 million before the effect of income taxes—somewhat more than in 1968. Because these losses reduce taxable income from current operations, the after-tax effect of securities losses was $209 million, or about 6 per cent of income before securities gains or losses. Extraordinary charges and credits were negligible in 1969.

INCOME TAXES

Provision for income taxes at member banks amounted to $1,229 million in 1969. Nearly 85 per cent of this total represented Federal income taxes. Taxes applicable to operating income totaled $1,813 million—nearly 23 per cent above the estimated figure for 1968. But large losses on sales of securities and tax-deductible transfers from capital to reserves for losses on loans reduced the tax total by about $590 million.

NET INCOME AND CASH DIVIDENDS

The $3,450 million of net income after taxes in 1969 was $488 million, or 16.5 per cent, higher than in 1968. This represented a rate of 10.1 per cent on equity capital plus all reserves—67 basis points greater than in 1968.

The ratio of net income to total capital accounts—a measure of stockholders' investment often used in comparing earnings in earlier years—was 11.1 per cent in 1969. This was more than in any other year for which data are available. The previous high —10.9 per cent in 1945—had reflected earnings that were swollen by war finance. It should be noted, however, that the 1969 figure includes the effects of consolidation of earnings of domestic subsidiaries and of shifts by some banks from cash to accrual accounting—for both of which no adjustments could be made. These changes probably had relatively minor effects on earnings in 1969.

The amount of net income after taxes that was paid out in 1969 as dividends was $1,523 million—17 per cent more than in 1968. This represented dividends of $1,517 million on common stock and $6.6 million on preferred stock. Such dividends were about 44 per cent of net income in both 1969 and 1968.

The 1969 income figures for member banks grouped by class are shown in Table 4. More detailed statistics of this kind for banks by Federal Reserve districts are expected to be published in the August 1970 BULLETIN.

APPENDIX: Major Changes in 1969 in the Reporting of Bank Income and Expenses

Type of change	*Previous reporting procedure*	*Present reporting procedure*
Use of accrual accounting	On either a cash or an accrual basis—depending upon the bank's method of bookkeeping. In actual practice most large banks have been reporting on an accrual basis for some years.	Accrual accounting now *required* for significant accounts for the following banks: In calendar 1969—for all banks with total resources of $50 million or more. In calendar 1970—for all banks with total resources of $25 million or more.
Consolidated income statement	Income, expenses, and dividends items for bank—exclusive of subsidiaries. Return on investment in subsidiaries reported as income on securities.	A line-by-line consolidated income statement of the bank is required; it must include income and expenses of its majority-owned bank premises subsidiaries and its other majority-owned significant domestic subsidiaries in the appropriate items.
Treatment of discount on securities purchased below par or face value	Most commonly shown as profit on securities only when securities were sold or exchanged—or in some cases systematically recognized in current income during period in which security was held.	Accretion of discount on securities purchased below par or face value in current income is encouraged but not required. Deferred income taxes applicable to the amount accreted are to be provided for in current period.
Income tax accounting and reporting	Income taxes for the year were reported in one sum on a cash or accrual basis. Adjustments for refunds and deficiency payments and for all over and under accruals of prior years were included. Most large banks reported on an accrual basis.	Beginning in 1969 all banks must bring (accrue) the reported provision for income taxes to a current basis; that is, the provision must relate to income and expense items reported for the current year. The reported tax figure must be allocated between amounts applicable to operating income and the tax effect of the net of profit and loss on sales of securities and extraordinary charges or credits.
Income on trading-account securities	Included in interest and dividends on securities.	Included in other operating income net of losses and incidental expenses.
Provision for loan losses	Included in nonoperating transactions. Banks on a reserve accounting basis were permitted to deduct from net operating earnings transfers to loan loss reserves set up to provide for possible loan losses, and banks without such reserves were permitted to deduct actual net losses and charge-offs on loans.	Included as an operating expense before calculation of operating income before taxes. As a minimum all banks on a loan loss reserve accounting basis must report against this item an estimated amount representing a 5-year average of losses as an amount that might reasonably be expected in the current loan portfolio, *or* an amount representing actual net loan losses for the current year.
Exclusion from net income of transfers to and from reserves on loans and on securities	Related to above. Transfers to and from reserves on loans and on securities—to provide for prospective but undetermined losses—were classed as nonoperating items that increased or decreased net income.	Transfers to and from reserves for loans and securities, in excess of amount included in the expense item "provision for loan losses" referred to above, are shown as increases or decreases in capital accounts net of tax effect. (The totals are reported—and reconciled—in a separate section relating to reserves on loans and securities.)
Gains or losses on securities sold	Gross losses and gross profits on securities sold (before income taxes) reported as nonoperating transactions increasing or decreasing net income but not affecting operating income.	Total of net gains or of net losses on securities sold is reported gross (before income taxes) *and* net (after income taxes) as separate items before determination of net income.

APPENDIX—Continued

Type of change	*Previous reporting procedure*	*Present reporting procedure*
Extraordinary charges or credits	Extraordinary charges and credits reported separately on a gross basis (before incomes taxes) as nonoperating transactions. Also included with these were certain miscellaneous but recurring transactions such as losses on bad checks.	Total net extraordinary charges or credits are reported gross (before income taxes) *and* net (after income taxes) as separate items before determination of net income. Miscellaneous but recurring losses and recoveries are now reflected in other current operating income or expenses.
Income on Federal funds sold and securities purchased under agreement to resell	Included in interest and discount on loans.	Reported as a separate item of operating income.
Service charges and other fees on bank loans	Shown as a separate item.	Reported in interest and fees on loans.
Interest and dividends on—		
Securities of Government agencies and corporations (other than U.S. Treasury)	Included for the most part in interest and dividends on "other securities."	Reported as a separate item.
Obligations of States and political subdivisions	Included in interest and dividends on "other securities."	Reported as a separate item.
Other securities	Included in interest and dividends on "other securities."	Reported as a separate item. Also now excludes dividends from investments in consolidated domestic subsidiaries.
Salaries—officers Salaries and wages—employees	Shown as separate items.	Included in salaries and wages of officers *and* employees.
Expense of Federal funds purchased and securities sold under agreement to repurchase	Included with other interest and discount on borrowed money.	Reported as a separate item under operating expenses.
Occupancy expense of bank premises	Included in considerable detail in a separate schedule.	Reported "net" as an operating expense with gross expense and rental income shown separately. Also affected by the consolidation of bank premises subsidiaries.
Interest on capital notes and debentures	Included with dividends on preferred stocks and shown as a deduction after net income.	Shown separately as an operating expense.
Recoveries on securities previously charged off prior to sale or redemption	Included in nonoperating item "recoveries on securities" increasing net income.	Reported in reserve for losses on securities *or* as "other operating income."
Securities charged off prior to sale or redemption	Included in nonoperating item "charge-offs on securities" reducing net income.	Reported in reserve for losses on securities *or* as "other operating expenses."
Minority interest in consolidated subsidiaries	Not reported.	Reported separately as a deduction before determination of net income.