



FEDERAL RESERVE

statistical release

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Immediate Release

STATISTICAL RELEASE MEMBER BANK INCOME, 1976

Earnings of member commercial banks increased during 1976 by nearly \$400 million, although at 7 per cent the annual rate of increase in profits remained below the 1970 through 1974 average. Declining interest rates during 1976 helped reduce the interest cost of funds; interest paid on deposits claims of domestic offices, for example, was lower in 1976 than in 1975 despite a sizeable expansion in those claims. Portfolio returns also were affected by generally lower market interest rates, however, and by a shift toward highly marketable, highly creditworthy -- but lower yielding -- assets. Although comparability between 1976 and 1975 is impeded by substantive changes in the Report of Income and Dividends it appears that the primary causes of profits improvement during 1976 were a large gain in interest on balances with banks and gains from securities transactions. Loan loss provisions remained basically unchanged at their elevated levels of the year earlier.

NOTES ON THE COMPARABILITY OF 1976 COMMERCIAL BANK INCOME DATA WITH PRIOR YEARS

Certain important definitions in the Report of Income and Dividends were changed in 1976, impairing comparability with earlier years. The most important is the level of consolidation. Although net income after taxes in all of the years shown reflects fully consolidated operations, in 1975 and earlier net income from foreign branches and subsidiaries was added as a part of "all other income". Beginning with 1976, the statement became fully consolidated, so that all of the components include the gross revenues and expenses of foreign branches and subsidiaries. This change is pertinent only to the commercial banks that operated foreign branches or subsidiaries during 1976, none of which had consolidated assets below \$100 million.

An additional change is that the loan loss reserve in 1976 is subtracted from loans and hence from assets. Before 1976, the loan loss reserve was carried as a liability. The reserve was also defined more narrowly in 1976 so as to reflect a reserve for credit loss. Other components of the pre-1976 reserve were incorporated in the equity capital account.

In addition, in 1976, "interest on balances with banks" was set out separately for the first time. This item reflects primarily Eurodollar redeposits and is believed to be considerably larger in 1976 than in earlier years.

Another change is that in 1976 unearned income is deducted from loan portfolios for the first time, in order to conform with generally-accepted accounting principles. Income on securities other than those issued by governments is broken down in 1976 between interest income on obligations issued by non-governmental units and dividend income earned on Federal Reserve and other stock. More detail was reported on interest paid on deposits in 1976; interest paid on large time certificates of deposit issued by domestic offices, interest on foreign deposits, and interest paid on other domestic time and savings deposits are now set out separately. Income from direct lease financing is now shown.

(over)

MEMBER BANK INCOME BY SIZE OF BANK, 1976 and 1975
(in millions of dollars)

<u>Item</u>	All Member Banks		With Consolidated Assets:					
			Under \$100 million		\$100 million to \$1 billion		\$1 billion and over	
	1976	1975	1976	1975	1976	1975	1976	1975
Interest revenue	56,787	44,024	8,942	8,359	11,483	11,007	36,361	24,656
On loans	40,901	33,749	6,034	5,684	8,078	8,039	26,789	20,026
On securities	10,112	8,559	2,546	2,297	2,872	2,473	4,693	3,788
On Federal funds sold	1,511	1,716	289	378	415	495	807	842
On balances with banks	4,263	n.a.	73	n.a.	118	n.a.	4,072	n.a.
Interest expense	31,809	23,515	4,335	4,093	5,566	5,488	21,907	13,934
On domestic savings and time deposits (on large CDs)	19,075 (5,899)	19,800 n.a.	4,234 (504)	3,993 n.a.	4,968 (1,168)	4,826 n.a.	9,872 (4,226)	10,981 n.a.
On deposits in foreign offices	8,672	n.a.	0	n.a.	30	n.a.	8,642	n.a.
On Federal funds purchased	3,151	3,151	69	68	484	574	2,598	2,509
On other borrowed money	911	564	32	32	84	88	795	444
Net interest revenue	24,978	20,509	4,607	4,266	5,917	5,519	14,454	10,722
Noninterest income	6,856	7,344	645	680	1,360	1,360	4,852	5,306
Loan loss provision	3,040	3,050	282	280	518	541	2,239	2,230
Other noninterest expense	21,073	17,845	3,609	3,502	5,278	4,874	12,218	9,568
Income before taxes and securities gains or losses	7,721	6,958	1,360	1,263	1,511	1,464	4,849	4,231
Income taxes	1,931	1,453	219	188	183	203	1,529	1,062
Gains and losses ^{1/}	128	40	52	16	47	9	30	16
Net income	5,917	5,546	1,194	1,091	1,374	1,270	3,349	3,185
Cash dividends declared	2,451	2,476	353	346	586	584	1,512	1,547
Number of banks	5,760	5,790	4,964	5,037	685	647	111	106
Ratio to average equity capital ^{2/}								
Net income	11.7	11.9	12.0	11.5	11.3	10.9	11.8	12.5
Retained earnings	6.9	6.6	8.5	7.8	6.5	5.9	6.5	6.4

See Notes on the comparability of 1976 income data.

^{1/} Includes net gains or losses from securities and extraordinary items.

^{2/} Equity capital includes common and preferred stock, surplus, contingency reserves, and undivided profits. The 1976 equity capital is adjusted for certain one-time changes that arose from a re-definition of the loan loss reserve.