research

education

service

efficiency

advocacy

outreach

FEDERAL RESERVE
BANK *of*
KANSAS CITY

Federal Reserve Bank *of* Kansas City

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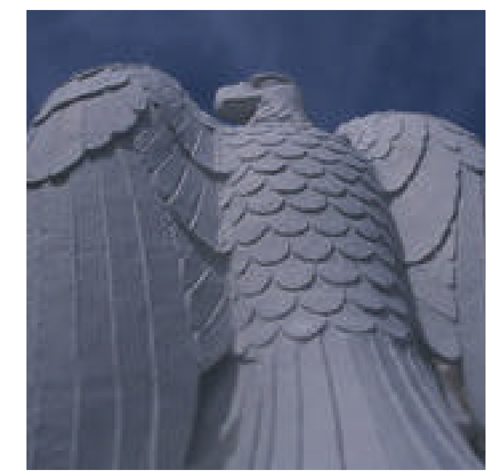

Annual Report

policy advice

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Inside

President

Thomas M. Hoenig

global

leadership

service

The year 2000 presented unique challenges to the Federal Reserve Bank of Kansas City. Our nation's economy began the year growing at a vigorous rate of five percent, but then slowed noticeably in the third and fourth quarters, ending the year with growth for the last quarter of only one percent. Additionally, although the financial industry in the Tenth District remained strong overall, by year-end many institutions faced increasing challenges affecting credit, liquidity, interest rate, and operational risks.

More generally, we confronted the inevitable changes occurring in the global and national economic and financial systems. Improvements in information technology continued to increase the complexity of relationships among the world's economies, and created ever more challenging issues for monetary and financial-system policymakers. The Internet, for example, offered financial institutions across the country and around the world ever more intricate payment systems options.

Within this changing environment, the Federal Reserve Bank of Kansas City worked to play a leadership role in helping to promote a stable economy and financial system, both at the regional and national levels. We sought to gain a better understanding of emerging financial issues by hosting our 24th annual economic symposium, which provided a forum for world financial leaders to discuss the benefits and challenges of global economic

integration. We also sponsored a conference attended by international rural leaders to hear their views on new policies for the agricultural and rural economies.

On the operational front, we implemented important new technologies to ensure that our Bank and the financial institutions we serve, keep pace with an increasingly global economy. We also continued to offer the personal service and support that our regional and community bankers have come to expect from the Federal Reserve Bank of Kansas City. We worked to share our understanding of new legislation affecting bank business lines, operations, and electronic transactions. We implemented automated tools to reduce examination burden, and we developed new products to meet the demands created by evolving technology. We also provided input on monetary policy, supervision and regulation, and financial services at a national level.

I am proud of the accomplishments at the Federal Reserve Bank of Kansas City. The efforts we made last year, that are detailed on the following pages, reflect our determination to help ensure efficient monetary and financial systems in an evolving economic climate. The foundation we built in 2000 helps ensure a healthy future as we continue to become part of an ever-changing global economic community.

Thomas M. Hoenig

THOMAS M. HOENIG
President and
Chief Executive Officer

Monetary Policy

Research staff at the Federal Reserve Bank of Kansas City conduct innovative research on a variety of issues relevant to the Federal Reserve System, and furnish monetary policy advice to our Bank's president and board of directors. Our president serves on the Federal Open Market Committee, which formulates monetary policy to promote price stability and sustainable economic growth. Statistical Services staff collects, verifies, and analyzes data used to assess the state of the economy.

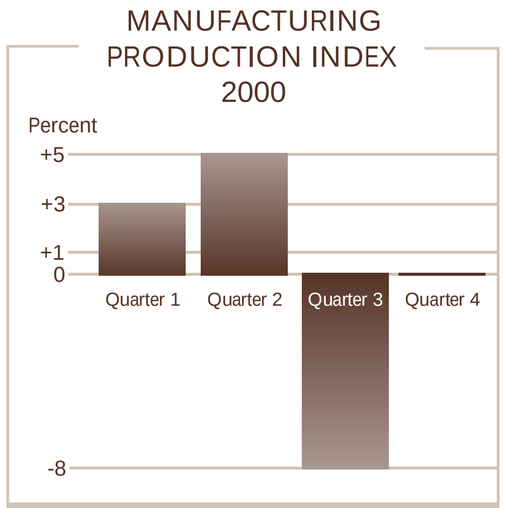
Our Bank contributes to public understanding of monetary policy and the economy by publishing research in professional journals and in the Bank's publications. In addition, we present information to the public through speeches by our research staff, our Web site, and educational programs. We also sponsor several conferences and forums every year on current economic issues.

policy advice

research

education

Assistant Vice President and Economist Stacey Schreft co-authored the article, "A Model of Financial Fragility," published in the *Journal of Economic Theory*.



Manufacturing activity in the District was monitored quarterly. Production decreased considerably in the third quarter and was flat in the fourth quarter, reflecting a general weakness in sales.

The Federal Reserve Bank of Kansas City opened a Money Museum displaying coins and currency from George Washington's presidency to the present day.

Major accomplishments

- Published research articles on a wide range of important issues, including asset prices and monetary policy, the discount window and monetary policy, financial fragility, risk sharing across geographic regions, bank mergers, and new policies for rural America.
- Sponsored an Economic Symposium on "Global Economic Integration: Opportunities and Challenges," attended by an international audience of central bankers, leading academicians, and financial market representatives.
- Sponsored a conference on "Beyond Agriculture: New Policies for Rural America," attended by more than 250 rural leaders.
- Made many presentations to banking, business, professional, and civic groups in the Tenth District and throughout the nation.

Roger Ferguson, Jr. (left), Vice Chairman of the Board of Governors, speaks with Gordon Thiessen, Governor, Bank of Canada, during the 2000 Economic Symposium.

Financial Services

The Federal Reserve Bank of Kansas City plays two roles in fulfilling its financial services mission – service provider and payments system leader. As a service provider, we remain in touch and involved with our customers to offer them the highest-quality services. Our services include check processing, electronic funds and securities transfers, ACH transactions, savings bonds processing, and currency and coin distribution.

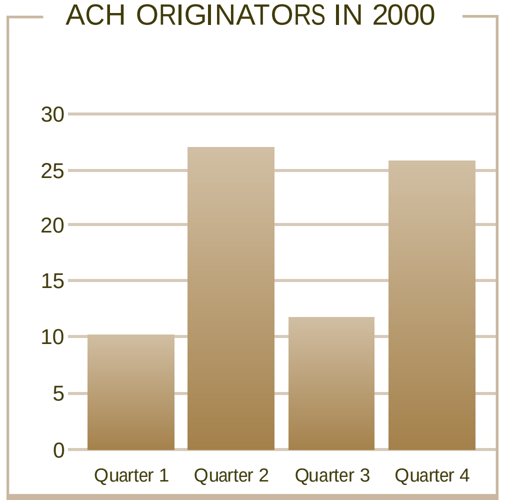
As a payments system leader, we are pledged to promoting a safe, efficient, and effective payments system. Together with the financial services industry, we act as advocates and educators to innovate and develop services that are responsive to the ever-changing needs of our customers and the public. We are committed to enhancing our expertise on payments issues, publishing timely and relevant information to keep our constituency informed, and promoting electronic payments.

service

efficiency

advocacy

Larry Foy and account managers around the district provided personal attention to community bankers, such as Janet Latimer, President, Lancaster County Bank, Waverly, Nebraska.



Increased the number of ACH originators in 2000 by promoting the benefits of electronic payments.

Information technology professionals, including Duane Nickerson, increased the reliability of Federal Reserve services by implementing a fully functional contingency site for use in case of unforeseen emergencies.

Major accomplishments

- Continued to focus on the future of community banking by providing a forum for the Tenth District's Customer Advisory Council to express its views to Fed policymakers about the role of the Fed in the payments system.
- Partnered with nearly 700 financial institutions and companies to promote Direct Deposit and Direct Payment to their customers by providing marketing materials and education.
- Continued to focus on building relationships with community banks by bringing them affordable solutions to meet the challenges of increasing competition and changing technology.

Kelvin Williams and other help desk staff maintained exceptional customer service standards by providing fast and accurate information to our customers.

Supervision & Risk Management

The Federal Reserve Bank of Kansas City plays an important role in overseeing and regulating financial institutions in the Tenth District. We supervise state member banks, and bank and financial holding companies to foster a sound and competitive financial system. We promote consumer confidence in the banking system by ensuring that financial institutions comply with consumer credit laws and meet the credit needs of their communities.

We partner with other banking agencies and interact with Tenth District institutions through various educational programs that we have developed for bank management and staff. We also administer the District's discount window, providing Federal Reserve credit for specific needs. We believe that working with our region's bankers to meet the challenges of an evolving industry is crucial to accomplishing our supervisory mission.

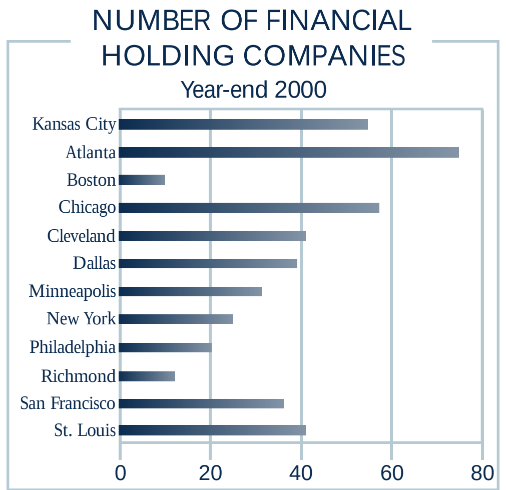
risk focused

leadership

outreach

David Au and other Supervision and Risk Management staff provided ongoing training to help staff members stay abreast of rapidly changing financial innovations and the use of new technologies.

We enhanced the effectiveness of our supervision by opening an Examinations and Inspections Department at the Omaha Branch Office in March 2000.



Implemented strategies to meet our responsibilities as the "umbrella supervisor" for financial holding companies created by the Gramm-Leach-Bliley Act.

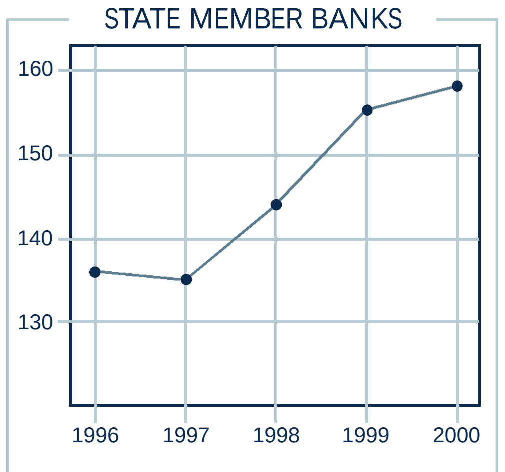
Major accomplishments

- Promoted sound banking through outreach efforts focused on current banking topics such as electronic banking issues, Gramm-Leach-Bliley Act (GLBA) provisions, financial privacy compliance requirements, and rural development and policy issues.

- Presented instructional programs for bank directors and loan officers, and published an update of our popular bank regulation book.

- Chaired Systemwide committees to improve the effectiveness and efficiency of the payment system risk and discount window functions.

- Continued efforts to develop computerized examination tools by: 1) acting as project leader for the System's joint effort with the FDIC to automate examinations, and 2) providing staff to develop, test, and train others on the examination program.



Met our increasing supervisory responsibilities by implementing new examination approaches and making greater use of automated examination tools.

Management
Committee

vision

leadership

planning

First Vice President
and Chief Operating Officer,
Richard K. Rasdall, Jr.

Thomas M. Hoenig
President and Chief Executive Officer

Richard K. Rasdall, Jr.
First Vice President
and Chief Operating Officer

Enis Alldredge, Jr.
Senior Vice President
Operations Division

Carl M. Gambs
Senior Vice President
and Denver Branch Manager

Craig S. Hakkio
Senior Vice President
and Director of Research
Research Division

Maryann F. Hunter
Senior Vice President
Supervision and
Risk Management Division

Kent M. Scott
Senior Vice President
Administrative Services Division

John E. Yorke
Senior Vice President
Coordinator for Large Complex
Banking Organizations (LCBO)

From left – Mr. Hoenig, Mr. Hakkio,
Mr. Scott, Mr. Gambs, Mr. Yorke,
Ms. Hunter, Mr. Alldredge, Mr. Rasdall

Board of Directors

Kansas City

Denver

Oklahoma City

Omaha

Kansas City

Jo Marie Dancik, Chairman
Area Managing Partner
Ernst & Young LLP
Denver, Colorado

Terrence P. Dunn, Deputy Chairman
President and CEO
J.E. Dunn Construction Co.
Kansas City, Missouri

Dennis E. Barrett
Vice Chairman
First Bank Holding Co. of Colorado
Lakewood, Colorado

Jeffrey L. Gerhart
President and CEO
First National Bank
Newman Grove, Nebraska

Hans C. Helmerich
President and CEO
Helmerich & Payne, Inc.
Tulsa, Oklahoma

Rhonda Holman
Vice President
Kauffman Center for Entrepreneurial Leadership
Ewing Marion Kauffman Foundation
Kansas City, Missouri

Paula Marshall-Chapman
CEO
The Bama Companies, Inc.
Tulsa, Oklahoma

Frank A. Potenziani
Investor, Trustee
M&T Trust
Albuquerque, New Mexico

Bruce A. Schriefer
President
Bankers' Bank of Kansas
Wichita, Kansas

Pictured from top –

Row 1: Mr. Helmerich, Mr. Schriefer,

Row 2: Mr. Barrett, Mr. Gerhart,

Mr. Potenziani, Row 3: Ms. Dancik,

Ms. Marshall-Chapman, Ms. Holman,

Mr. Dunn

Denver

Kathryn A. Paul, Chairman
Division President (Retired)
Kaiser Permanente
Denver, Colorado

Kathleen Avila
Partner and CEO
Avila Retail
Albuquerque, New Mexico

John W. Hay, III
President
Rock Springs National Bank
Rock Springs, Wyoming

James A. King
CEO
BT Incorporated
Riverton, Wyoming

C. G. Mammel
President and CEO
The Bank of Cherry Creek, N.A.
Denver, Colorado

Robert M. Murphy
President
Sandia Properties Ltd., Co.
Albuquerque, New Mexico

Albert C. Yates
President
Colorado State University
Fort Collins, Colorado

Pictured from left – Mr. King, Mr. Mammel, Ms. Paul, Mr. Murphy, Mr. Hay, Mr. Yates, Ms. Avila

Oklahoma City

Larry W. Brummett (deceased)
Chairman, January - August 2000
Chairman, President, and CEO
ONEOK, Inc.
Tulsa, Oklahoma

Patricia B. Fennell
Chairman, August - December 2000
Executive Director
Latino Community
Development Agency
Oklahoma City, Oklahoma

William H. Braum
Owner
W. H. Braum, Inc. and
Retail Buildings, Inc.
Oklahoma City, Oklahoma

Robert A. Funk
Chairman and CEO
Express Personnel Services International
Oklahoma City, Oklahoma

David Kruse
Senior Vice President
American Airlines Maintenance and
Engineering Center
Tulsa, Oklahoma

W. Carlisle Mabrey, III
President and CEO
Citizens Bank and Trust Company
Okmulgee, Oklahoma

Michael S. Samis
Chairman and CEO
M-D Building Products, Inc.
Oklahoma City, Oklahoma

Betty Bryant Shaull
President-Elect and Director
Bank of Cushing and Trust Company
Cushing, Oklahoma

Pictured from left – Ms. Fennell, Mr. Mabrey, Mr. Brummett, Mr. Samis, Mr. Braum, Ms. Shaull

Not pictured – Mr. Funk, Mr. Kruse

Omaha

Gladys Styles Johnston, Chairman
Chancellor
University of Nebraska at Kearney
Kearney, Nebraska

Bob L. Gottsch
Vice President
Gottsch Feeding Corporation
Hastings, Nebraska

Frank L. Hayes
President
Hayes & Associates, LLC, CPAs
Omaha, Nebraska

H. H. Kosman
Chairman, President, and CEO
Platte Valley National Bank
Scottsbluff, Nebraska

Judith A. Owen
President and CEO
Wells Fargo Bank Nebraska, NA
Omaha, Nebraska

A. F. "Tony" Raimondo
Chairman and CEO
Behlen Mfg. Co.
Columbus, Nebraska

Pictured from top left -

Row 1: Mr. Raimondo, Mr. Kosman,

Ms. Owen, Row 2: Mr. Gottsch,

Dr. Johnston, Mr. Hayes

Advisory Councils

Economic Advisory Council

Hugh Aiken
CEO
Atchison Casting Corporation
Atchison, Kansas

Leonard G. Beauchamp
Director of Research and
Collective Bargaining Services
International Brotherhood of Boilermakers
Kansas City, Kansas

David W. Burkholder
President
Will Feed, Inc. and Island Dehy, Inc.
Cozad, Nebraska

Diana Dorn-Jones
Executive Director
United South Broadway Corporation
Albuquerque, New Mexico

I. B. Hoover
President
Business Environments
Albuquerque, New Mexico

Terry L. Moore
President
Omaha Federation of Labor, AFL-CIO
Omaha, Nebraska

John D. Novak
President
Ash Grove Materials Corporation
Shawnee Mission, Kansas

Derek L. Park
President
PMS Foods, Inc.
Hutchinson, Kansas

Anthony F. Prinster
President
City Market, Inc.
Grand Junction, Colorado

Florine P. Raitano
Executive Director
Colorado Rural Development Council
Dillon, Colorado

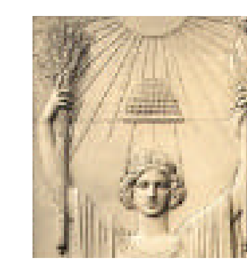
Richard L. Robinson
Chairman and CEO
Robinson Dairy, Inc.
Denver, Colorado

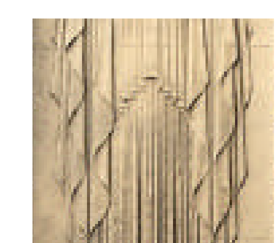
Clint Roush
Clint Roush Farms, Inc.
Arapaho, Oklahoma

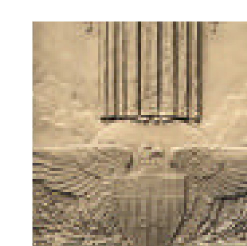
Gerald L. Schleich
Chairman
Austin Realty Group
Lincoln, Nebraska

G. W. Swisher, Jr.
Chairman and CEO
CMI Corporation
Oklahoma City, Oklahoma

Richard E. Wheeler
Chief Executive Officer
Wyoming Machinery Company
Casper, Wyoming







Financial Services Customer Advisory Council

Kansas City

William Esry
President and COO
Blue Ridge Bank & Trust Co.
Kansas City, Missouri

Camden Fine
President and CEO
Midwest Independent Bank
Jefferson City, Missouri

Steve Hipp
Executive Vice President
Intrust Bank, N.A.
Wichita, Kansas

Danny Little
Executive Vice President
Lamar Bank and Trust Co.
Lamar, Missouri

Bruce B. Morgan
President and CEO
The Valley State Bank
Roeland Park, Kansas

Bruce Schriefer
President and CEO
Bankers' Bank of Kansas
Wichita, Kansas

Rick Smalley
Senior Executive Vice President
Bank Midwest
Kansas City, Missouri

Larry Snyder
President and CEO
The Hamilton Bank
Hamilton, Missouri

Denver

Jean L. Burr
Senior Vice President
Community Bankshares, Inc.
Greenwood Village, Colorado

Jack W. Calabrese
President
Integrated Payment Systems Inc.
Englewood, Colorado

Don A. Childears
President and CEO
The Colorado Bankers Association
Denver, Colorado

Dan M. Fisher
President and CEO
Community First Service Corporation
Fargo, North Dakota

Roger R. Reiling
President
Bankers' Bank of the West
Denver, Colorado

James A. Reuter
President
FirstBank Data Corporation
Lakewood, Colorado

Barbara M.A. Walker
Executive Manager
Independent Bankers of Colorado
Denver, Colorado

Oklahoma City

Don Abernathy
President and CEO
The Bankers Bank
Oklahoma City, Oklahoma

Steve Carmack
Chairman and CEO
Legacy Bank
Hinton, Oklahoma

Kerby E. Crowell
Executive Vice President
Stillwater National Bank and Trust Co.
Stillwater, Oklahoma

Mike Elvir
Executive Vice President and CIO
Bank of Oklahoma
Tulsa, Oklahoma

Robert R. Gilbert
President and COO
F & M Bank & Trust Co.
Tulsa, Oklahoma

Bob Horn
Vice President
MidFirst Bank
Oklahoma City, Oklahoma

J. L. Miller
President, CEO and COO
Bank of Chelsea
Chelsea, Oklahoma

Omaha

J. Sid Dinsdale
President
Pinnacle Bank
Omaha, Nebraska

Alan L. Fosler
Senior Vice President and Cashier
Union Bank and Trust Co.
Lincoln, Nebraska

Don G. Johnson
Chairman of the Board
Midwest Bank
Pierce, Nebraska

Lloyd R. Kitrell
President
Hastings State Bank
Hastings, Nebraska

Jim E. Kozal
Vice President
Platte Valley National Bank
Scottsbluff, Nebraska

William W. Marshall III
President
Five Points Bank
Grand Island, Nebraska

Gerald E. Wortman
President and CEO
Sherman County Bank
Loup City, Nebraska

Credit Union Advisory Council:

Oklahoma City Branch

Steven Cole
President and CEO
Red Crown Federal Credit Union
Tulsa, Oklahoma

Terri Davis
Vice President
66 Federal Credit Union
Bartlesville, Oklahoma

Tom Eaton
Managing Officer
St. Francis Employees Federal
Credit Union
Tulsa, Oklahoma

Larry Hackler
President and CEO
OU Federal Credit Union
Norman, Oklahoma

Duane Hall
President and CEO
University & Community FCU
Stillwater, Oklahoma

Mark W. Kelly
President and CEO
Oklahoma Employees Credit Union
Oklahoma City, Oklahoma

Mike Kloiber
President and CEO
Tinker Federal Credit Union
Oklahoma City, Oklahoma

Shirley R. McConnell
President and CEO
Oklahoma Federal Credit Union
Oklahoma City, Oklahoma

Donald D. Stivers
President and CEO
Oil Capital Federal Credit Union
Tulsa, Oklahoma

Jim M. Williams
President and CEO
Oklahoma Health Services
Federal Credit Union
Oklahoma City, Oklahoma

Tenth District Officers

Kansas City

Thomas M. Hoenig
President and Chief Executive Officer

Richard K. Rasdall, Jr.
First Vice President
and Chief Operating Officer

Enis Alldredge, Jr.
Senior Vice President

Craig S. Hakkio
Senior Vice President and
Director of Research

Kent M. Scott
Senior Vice President

Dick H. Woods, Jr.
Senior Vice President,
General Counsel, and
Adviser to Management Committee

John E. Yorke
Senior Vice President

Robert W. Allen
Vice President

Charles L. Bacon, Jr.
Vice President, Associate General Counsel,
and Secretary

Alan D. Barkema
Vice President and Economist

Denise I. Connor
Vice President

G. Will Cook
General Auditor

Mark R. Drabenstott
Vice President and Director,
Center for the Study of Rural America

Esther L. George
Vice President

Roberta E. Hearn
Vice President

Carol A. Hefley
Vice President

James H. Jonson
Vice President

George A. Kahn
Vice President and Economist

Stephen E. McBride
Vice President

Larry G. Meeker
Vice President

Dawn B. Morhaus
Vice President

Charles S. Morris
Vice President

Barbara S. Pacheco
Vice President

Barry K. Robinson
Vice President and
Public Information Officer

Linda S. Schroeder
Vice President

Gordon H. Sellon, Jr.
Vice President and Economist

John C. Vandermade, Jr.
Vice President

Stuart E. Weiner
Vice President and Economist

Debra L. Bronston
Assistant Vice President

Harriet I. Chern
Assistant Vice President

Michael R. Childs
Assistant Vice President

Todd E. Clark
Assistant Vice President and Economist

Paul S.J. Coquillette
Assistant Vice President

Anita F. Constanza
Assistant Vice President

Kelley D. Courtright
Assistant Vice President

Nigel S. Davis
Assistant Vice President

James R. Deis
Assistant Vice President

Andrew Filardo
Assistant Vice President and Economist

C. Alan Garner
Assistant Vice President and Economist

Leesa M. Guyton
Assistant Vice President

Lori D. Haley
Assistant Vice President

Ann L. Hoelting
Assistant Vice President

Sharon Kozicki
Assistant Vice President and Economist

D. Michael Manies
Assistant Vice President

John M. Mitchell
Assistant Vice President

Kevin L. Moore
Assistant Vice President

Randall L. Mueller
Assistant Vice President

Karen A. Pennell
Assistant Vice President

Stacey Schreft
Assistant Vice President and Economist

Wilmer R. Ullman
Associate General Counsel

Kathryn A. Webster
Assistant Vice President

John A. Wood
Assistant Vice President and
Community Affairs Officer

Catherine A. Zeigler
Assistant Vice President

Susan E. Zubradt
Assistant Vice President and
Assistant Secretary

Denver

Carl M. Gambs
Senior Vice President and Branch Manager

Maryann F. Hunter
Senior Vice President

Randy M. Schartz
Vice President and Assistant Branch Manager

Pamela L. Weinstein
Vice President

Thomas P. Bennett
Assistant Vice President

Gary E. Darby
Assistant Vice President

Debbie L. Meyers
Assistant Vice President

S. Andrew Thompson, Jr.
Assistant Vice President

Oklahoma City

Kelly J. Dubbert
Vice President and Branch Manager

Dwayne E. Boggs
Assistant Vice President and
Assistant Branch Manager

Tara B. Koenigs
Assistant Vice President

Robert W. Toler
Assistant Vice President

Omaha

Steven D. Evans
Vice President and Branch Manager

Ronald M. Ryan
Assistant Vice President and
Assistant Branch Manager

Kevin A. Drusch
Assistant Vice President

D. Rick Lay
Assistant Vice President

Financial Report

letters

statements

notes

Federal Reserve Bank of Kansas City

925 Grand Boulevard
Kansas City, Missouri 64198-0001
(816) 881-2000

To the Board of Directors:

The management of the Federal Reserve Bank of Kansas City (FRBKC) is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 2000 ("Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

The management of the FRBKC is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of reliable Financial Statements. This process of internal controls contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in the process of internal controls are reported to management, and appropriate corrective measures are implemented.

Even an effective process of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements.

The management of the FRBKC assessed its process of internal controls over financial reporting including the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management of the FRBKC believes that the FRBKC maintained an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements.

Thomas M. Hoenig	Richard K. Rasdall, Jr.
President	First Vice President

Federal Reserve Bank of Kansas City
March 2, 2001

PRICEWATERHOUSECOOPERS

Report of Independent Accountants

PricewaterhouseCoopers LLP
1055 Broadway
10th Floor
Kansas City MO 64105-1595
Telephone (816) 472 7921
Facsimile (816) 218 1890

To the Board of Directors of the
Federal Reserve Bank of Kansas City

We have examined management's assertion that the Federal Reserve Bank of Kansas City ("FRBKC") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000 included in the accompanying Management's Assertion.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the FRBKC maintained effective internal control over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000, is fairly stated, in all material respects, based upon criteria described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

PricewaterhouseCoopers LLP

March 2, 2001
Kansas City, Missouri

PRICEWATERHOUSECOOPERS

Report of Independent Accountants

PricewaterhouseCoopers LLP
1055 Broadway
10th Floor
Kansas City MO 64105-1595
Telephone (816) 472 7921
Facsimile (816) 218 1890

To the Board of Governors of The Federal Reserve System
and the Board of Directors of The Federal Reserve Bank of Kansas City:

We have audited the accompanying statements of condition of The Federal Reserve Bank of Kansas City (the "Bank") as of December 31, 2000 and 1999, and the related statements of income and changes in capital for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the financial statements were prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of The Federal Reserve System. These principles, policies, and practices, which were designed to meet the specialized accounting and reporting needs of The Federal Reserve System, are set forth in the "Financial Accounting Manual for Federal Reserve Banks" and constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

March 2, 2001
Kansas City, Missouri

Financial Statements

Federal Reserve Bank of Kansas City

Statements of Conditions (in millions)

As of December 31, 2000 and 1999

	2000	1999
Assets		
Gold certificates	$ 340	$ 313
Special drawing rights certificates	66	175
Coin	67	17
Items in process of collection	579	474
Loans to depository institutions	31	11
U.S. government and federal agency securities, net	17,279	14,511
Investments denominated in foreign currencies	436	381
Accrued interest receivable	201	146
Interdistrict settlement account	-	3,969
Bank premises and equipment, net	79	74
Other assets	15	15
Total assets	$ 19,093	$ 20,086
Liabilities and Capital		
Liabilities:		
Federal Reserve notes outstanding, net	$ 16,646	$ 18,829
Deposits:		
Depository institutions	722	480
Other deposits	21	4
Deferred credit items	433	340
Interest on Federal Reserve notes due U.S. Treasury	33	15
Interdistrict settlement account	818	-
Accrued benefit cost	54	54
Other liabilities	8	6
Total liabilities	18,735	19,728
Capital:		
Capital paid-in	179	179
Surplus	179	179
Total capital	358	358
Total liabilities and capital	$ 19,093	$ 20,086

The accompanying notes are an integral part of these financial statements.

Federal Reserve Bank of Kansas City

Statements of Income (in millions)

For the years ended December 31, 2000 and 1999

	2000	1999
Interest income:		
Interest on U.S. government and federal agency securities	$ 1,019	$ 804
Interest on investments denominated in foreign currencies	8	5
Interest on loans to depository institutions	3	1
Total interest income	1,030	810
Other operating income:		
Income from services	68	60
Reimbursable services to government agencies	20	22
Foreign currency losses, net	(39)	(12)
U.S. government securities losses, net	(2)	(1)
Other income	2	2
Total other operating income	49	71
Operating expenses:		
Salaries and other benefits	89	84
Occupancy expense	8	7
Equipment expense	11	9
Assessments by Board of Governors	19	19
Other expenses	52	50
Total operating expenses	179	169
Net income prior to distribution	$ 900	$ 712
Distribution of net income:		
Dividends paid to member banks	$ 11	$ 10
Transferred to surplus	104	39
Payments to U.S. Treasury as interest on Federal Reserve notes	785	663
Total distribution	$ 900	$ 712

The accompanying notes are an integral part of these financial statements.

Federal Reserve Bank of Kansas City

Statements of Changes in Capital (in millions)

For the years ended December 31, 2000 and December 31, 1999

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1999			
(2.8 million shares)	$ 140	$ 140	$ 280
Net income transferred to surplus	—	39	39
Net change in capital stock issued			
(0.8 million shares)	39	—	39
Balance at December 31, 1999			
(3.6 million shares)	$ 179	$ 179	$ 358
Net income transferred to surplus	—	104	104
Surplus transfer to the U.S. Treasury	—	(104)	(104)
Balance at December 31, 2000			
(3.6 million shares)	$ 179	$ 179	$ 358

The accompanying notes are an integral part of these financial statements.

Financial Notes

Federal Reserve Bank of Kansas City

Notes to Financial Statements

1. ORGANIZATION:

The Federal Reserve Bank of Kansas City ("Bank") is part of the Federal Reserve System ("System") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act") which established the central bank of the United States. The System consists of the Board of Governors of the Federal Reserve System ("Board of Governors") and twelve Federal Reserve Banks ("Reserve Banks"). The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. Other major elements of the System are the Federal Open Market Committee ("FOMC") and the Federal Advisory Council. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY") and, on a rotating basis, four other Reserve Bank presidents.

Structure:

The Bank and its branches in Denver, Colorado, Oklahoma City, Oklahoma, and Omaha, Nebraska, serve the Tenth Federal Reserve District, which includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, and a portion of Missouri and New Mexico. In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a Board of Directors. Banks that are members of the System include all national banks and any state chartered bank that applies and is approved for membership in the System.

Board of Directors:

The Federal Reserve Act specifies the composition of the Board of Directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as Chairman and Deputy Chairman, are appointed by the Board of Governors, and six directors are elected by member banks. Of the six elected by member banks, three represent the public and three represent member banks. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

2. OPERATIONS AND SERVICES:

The System performs a variety of services and operations. Functions include: formulating and conducting monetary policy; participating actively in the payments mechanism, including large-dollar transfers of funds, automated clearinghouse operations and check processing; distribution of coin and currency; fiscal agency functions for the U.S. Treasury and certain federal agencies; serving as the federal government's bank; providing short-term loans to depository institutions; serving the consumer and the community by providing educational materials and information regarding consumer laws; supervising bank holding companies, and state member banks; and administering other regulations of the Board of Governors. The Board of Governors' operating costs are funded through assessments on the Reserve Banks.

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the FRBNY for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, the purchase of securities under agreements to resell, and the lending of U.S. government securities. The FRBNY is also authorized by the FOMC to hold balances of and to execute spot and forward foreign exchange and securities contracts in nine foreign currencies, maintain reciprocal currency arrangements ("F/X swaps") with various central banks, and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES:

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by the Financial Accounting Standards Board. The Board of Governors has developed specialized accounting principles and practices that it believes are appropriate for the significantly different nature and function of a central bank as compared to the private sector. These accounting principles and practices are documented in the "Financial Accounting Manual for Federal Reserve Banks" ("Financial Accounting Manual"), which is issued by the Board of Governors. All Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the Financial Accounting Manual.

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost, rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases, rather than secured borrowings with pledged collateral, as is generally required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows. The Statement of Cash Flows has not been included as the liquidity and cash position of the Bank are not of primary concern to the users of these financial statements. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. Therefore, a Statement of Cash Flows would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

The preparation of the financial statements in conformity with the Financial Accounting Manual requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Unique accounts and significant accounting policies are explained below.

a. Gold Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. These gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged and the Reserve Banks' gold certificate accounts are lowered. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 a fine troy ounce. The Board of Governors allocates the gold certificates among Reserve Banks once a year based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

b. Special Drawing Rights Certificates

Special drawing rights ("SDRs") are issued by the International Monetary Fund ("Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for United States participation in the SDR system, the Secretary of the U.S. Treasury is authorized to issue SDR certificates, somewhat like gold certificates, to the Reserve Banks. At such time, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDRs, at the direction of the U.S. Treasury, for the purpose of financing SDR certificate acquisitions or for financing exchange stabilization operations. The Board of Governors allocates each SDR transaction among Reserve Banks based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

c. Loans to Depository Institutions

The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in Regulation D issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve

Banks. Borrowers execute certain lending agreements and deposit sufficient collateral before credit is extended. Loans are evaluated for collectibility, and currently all are considered collectible and fully collateralized. If any loans were deemed to be uncollectible, an appropriate reserve would be established. Interest is recorded on the accrual basis and is charged at the applicable discount rate established at least every fourteen days by the Board of Directors of the Reserve Banks, subject to review by the Board of Governors. However, Reserve Banks retain the option to impose a surcharge above the basic rate in certain circumstances.

d. U.S. Government and Federal Agency Securities and Investments Denominated in Foreign Currencies

The FOMC has designated the FRBNY to execute open market transactions on its behalf and to hold the resulting securities in the portfolio known as the System Open Market Account ("SOMA"). In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes and directs the FRBNY to execute operations in foreign markets for major currencies in order to counter disorderly conditions in exchange markets or other needs specified by the FOMC in carrying out the System's central bank responsibilities.

Purchases of securities under agreements to resell and matched sale-purchase transactions are accounted for as separate sale and purchase transactions. Purchases under agreements to resell are transactions in which the FRBNY purchases a security and sells it back at the rate specified at the commencement of the transaction. Matched sale-purchase transactions are transactions in which the FRBNY sells a security and buys it back at the rate specified at the commencement of the transaction.

Effective April 26, 1999, FRBNY was given the sole authorization by the FOMC to lend U.S. government securities held in the SOMA to U.S. government securities dealers and to banks participating in U.S. government securities clearing arrangements, in order to facilitate the effective functioning of the domestic securities market. These securities-lending transactions are fully collateralized by other U.S. government securities. FOMC policy requires FRBNY to take possession of collateral in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA. Prior to April 26, 1999, all Reserve Banks were authorized to engage in such lending activity.

Foreign exchange contracts are contractual agreements between two parties to exchange specified currencies, at a specified price, on a specified date. Spot foreign contracts normally settle two days after the trade date, whereas the settlement date on forward contracts is negotiated between the contracting parties, but will extend beyond two days from the trade date. The FRBNY generally enters into spot contracts, with any forward contracts generally limited to the second leg of a swap/warehousing transaction.

The FRBNY, on behalf of the Reserve Banks, maintains renewable, short-term F/X swap arrangements with two authorized foreign central banks. The parties agree to exchange their currencies up to a pre-arranged maximum amount and for an agreed upon period of time (up to twelve months), at an agreed upon interest rate. These arrangements give the FOMC temporary access to foreign currencies that it may need for intervention operations to support the dollar and give the partner foreign central bank temporary access to dollars it may need to support its own currency. Drawings under the F/X swap arrangements can be initiated by either the FRBNY or the partner foreign central bank, and must be agreed to by the drawee. The F/X swaps are structured so that the party initiating the transaction (the drawer) bears the exchange rate risk upon maturity. The FRBNY will generally invest the foreign currency received under an F/X swap in interest-bearing instruments.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

In connection with its foreign currency activities, the FRBNY, on behalf of the Reserve Banks, may enter into contracts which contain varying degrees of off-balance sheet market risk, because they represent contractual commitments involving future settlement, and counter-party credit risk. The FRBNY controls credit risk by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

While the application of current market prices to the securities currently held in the SOMA portfolio and investments denominated in foreign currencies may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Reserve Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio from time to time involve transactions that can result in gains or losses when holdings are sold prior to maturity. However, decisions regarding the securities and foreign currencies transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, earnings and any gains or losses resulting from the sale of such currencies and securities are incidental to the open market operations and do not motivate its activities or policy decisions.

U.S. government and federal agency securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Interest income is accrued on a straight-line basis and is reported as "Interest on U.S. government and federal agency securities" or "Interest on investments denominated in foreign currencies," as appropriate. Income earned on securities lending transactions is reported as a component of "Other income." Gains and losses resulting from sales of securities are determined by specific issues based on average cost. Gains and losses on the sales of U.S. government and federal agency securities are reported as "U.S. government securities losses, net." Foreign currency denominated assets are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency losses, net." Foreign currencies held through F/X swaps, when initiated by the counter-party, and warehousing arrangements are revalued monthly, with the unrealized gain or loss reported by the FRBNY as a component of "Other assets" or "Other liabilities," as appropriate.

Balances of U.S. government and federal agency securities bought outright, investments denominated in foreign currency, interest income, amortization of premiums and discounts on securities bought outright, gains and losses on sales of securities, and realized and unrealized gains and losses on investments denominated in foreign currencies, excluding those held under an F/X swap arrangement, are allocated to each Reserve Bank. Effective April 26, 1999, income from securities lending transactions undertaken by FRBNY was also allocated to each Reserve Bank. Securities purchased under agreements to resell and unrealized gains and losses on the revaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks.

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from 2 to 50 years. New assets, major alterations, renovations and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs and minor replacements are charged to operations in the year incurred. Internally developed software is capitalized based on the cost of direct materials and services and those indirect costs associated with developing, implementing, or testing software.

f. Interdistrict Settlement Account

At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include funds settlement, check clearing and automated clearinghouse operations, and allocations of shared expenses. The cumulative net amount due to or from other Reserve Banks is reported as the "Interdistrict settlement account."

g. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents to the Reserve Banks upon deposit with such Agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve Agent must be equal to the sum of the notes applied for by such Reserve Bank. In accordance with the Federal Reserve Act, gold certificates, special drawing rights certificates, U.S. government and federal agency securities, triparty agreements, loans to depository institutions, and investments denominated in foreign currencies are pledged as collateral for net Federal Reserve notes outstanding. The collateral value is equal to the book value of the collateral tendered, with the exception of securities, whose collateral value is equal to the par value of the securities tendered. The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. The Reserve Banks have entered into an agreement which provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks in order to satisfy their obligation of providing sufficient collateral for outstanding Federal Reserve notes. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, as obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the United States government.

The "Federal Reserve notes outstanding, net" account represents Federal Reserve notes reduced by currency held in the vaults of the Bank of $4,932 million, and $5,769 million at December 31, 2000 and 1999, respectively.

h. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. As a member bank's capital and surplus changes, its holdings of the Reserve Bank's stock must be adjusted. Member banks are those state-chartered banks that apply and are approved for membership in the System and all national banks. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. These shares are nonvoting with a par value of $100. They may not be transferred or hypothecated. By law, each member bank is entitled to receive an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

i. Surplus

The Board of Governors requires Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks would be required to call on member banks for additional capital. Reserve Banks are required by the Board of Governors to transfer to the U.S. Treasury excess earnings, after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in.

The Consolidated Appropriations Act of 2000 (Public Law 106-113, Section 302) directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of $3,752 million during the Federal Government's 2000 fiscal year. The Bank transferred $104 million to the U.S. Treasury during the year ended December 31, 2000. Reserve Banks were not permitted to replenish the surplus for these amounts during fiscal year 2000 which ended September 30, 2000; however, the surplus was replenished by December 31, 2000.

In the event of losses or a substantial increase in capital, payments to the U.S. Treasury are suspended until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly.

j. Income and Costs related to Treasury Service

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services. The costs of providing fiscal agency and depository services to the Treasury Department that have been billed but will not be paid are immaterial and included in "Other expenses."

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property, which are reported as a component of "Occupancy expense."

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES:

Securities bought outright are held in the SOMA at the FRBNY. An undivided interest in SOMA activity, with the exception of securities held under agreements to resell and the related premiums, discounts and income, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was approximately 3.332 percent and 2.999 percent at December 31, 2000 and 1999, respectively.

The Bank's allocated share of securities held in the SOMA at December 31, that were bought outright, were as follows (in millions):

	2000	1999
Par value:		
Federal agency	$ 4	$ 5
U.S. government:		
Bills	5,956	5,293
Notes	8,004	6,551
Bonds	3,092	2,488
Total par value	17,056	14,337
Unamortized premiums	325	274
Unaccreted discounts	(102)	(100)
Total allocated to Bank	$ 17,279	$ 14,511

Total SOMA securities bought outright were $518,501 million and $483,902 million at December 31, 2000 and 1999, respectively.

The maturity distribution of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 2000, were as follows (in millions):

	Par value		
Maturities of Securities Held	U.S. Government Securities	Federal Agency Obligations	Total
Within 15 days	$ 602	$ —	$ 602
16 days to 90 days	3,631	—	3,631
91 days to 1 year	4,183	—	4,183
Over 1 year to 5 years	4,425	4	4,429
Over 5 years to 10 years	1,848	—	1,848
Over 10 years	2,363	—	2,363
Total	$ 17,052	$ 4	$ 17,056

At December 31, 2000 and 1999, matched sale-purchase transactions involving U.S. government securities with par values of $21,112 million and $39,182 million, respectively, were outstanding, of which $704 million and $1,175 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES:

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments. Foreign government debt instruments held include both securities bought outright and securities held under agreements to resell. These investments are guaranteed as to principal and interest by the foreign governments.

Each Reserve Bank is allocated a share of foreign-currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on F/X swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was approximately 2.782 percent and 2.359 percent at December 31, 2000 and 1999, respectively.

The Bank's allocated share of investments denominated in foreign currencies, valued at current exchange rates at December 31, were as follows (in millions):

	2000	1999
European Union Euro		
Foreign currency deposits	$ 129	$ 102
Government debt instruments including agreements to resell	76	60
Japanese Yen:		
Foreign currency deposits	77	8
Government debt instruments including agreements to resell	153	210
Accrued interest	1	1
Total	$ 436	$ 381

Total investments denominated in foreign currencies were $15,670 million and $16,140 million at December 31, 2000 and 1999, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2000, were as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	$ 409
Over 1 year to 5 years	12
Over 5 years to 10 years	12
Over 10 years	3
Total	$ 436

At December 31, 2000 and 1999, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 2000 and 1999, the warehousing facility was $5,000 million, with no balance outstanding.

6. BANK PREMISES AND EQUIPMENT:

A summary of bank premises and equipment at December 31 is as follows (in millions):

	2000	1999
Bank premises and equipment:		
Land	$ 12	$ 12
Buildings	48	48
Building machinery and equipment	17	17
Construction in progress	2	1
Furniture and equipment	72	58
	151	136
Accumulated depreciation	(72)	(62)
Bank premises and equipment, net	$ 79	$ 74

Depreciation expense was $11 million and $9 million for the years ended December 31, 2000 and 1999, respectively.

7. COMMITMENTS AND CONTINGENCIES:

At December 31, 2000, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 4 years. These leases provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance and maintenance when included in rent), net of sublease rentals, was $638 thousand and $313 thousand for the years ended December 31, 2000 and 1999, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with terms of one year or more, at December 31, 2000, were (in thousands):

	Operating
2001	$ 748
2002	747
2003	746
2004	506
2005	–
Thereafter	–
Total	$ 2,747

Under the Insurance Agreement of the Federal Reserve Banks dated as of March 2, 1999, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital paid-in bears to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under such agreement at December 31, 2000 or 1999.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

8. RETIREMENT AND THRIFT PLANS:

Retirement Plans:

The Bank currently offers two defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan") and the Benefit Equalization Retirement Plan ("BEP"). The System Plan is a multi-employer plan with contributions fully funded by participating employers. No separate accounting is maintained of assets contributed by the participating employers. The Bank's projected benefit obligation and net pension costs for the BEP at December 31, 2000 and 1999, and for the years then ended, are not material.

Thrift Plan:

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled $3 million for each of the years ended December 31, 2000 and 1999, and are reported as a component of "Salaries and other benefits."

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Pensions:

In addition to the Bank's retirement plans, employees who have met certain age and length of service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets. Net postretirement benefit costs are actuarially determined using a January 1 measurement date.

Following is a reconciliation of beginning and ending balances of the benefit obligation (in millions):

	2000	1999
Accumulated postretirement benefit obligation at January 1	$ 23.8	$ 27.7
Service cost-benefits earned during the period	0.7	0.8
Interest cost of accumulated benefit obligation	1.8	1.6
Actuarial (gain)/loss	1.8	(4.8)
Contributions by plan participants	0.3	0.2
Benefits paid	(1.8)	(1.7)
Accumulated postretirement benefit obligation at December 31	$ 26.6	$ 23.8

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	2000	1999
Fair value of plan assets at January 1	$ —	$ —
Actual return on plan assets	—	—
Contributions by the employer	1.5	1.5
Contributions by plan participants	0.3	0.2
Benefits paid	(1.8)	(1.7)
Fair value of plan assets at December 31	$ —	$ —
Unfunded postretirement benefit obligation	$ 26.6	$ 23.8
Unrecognized prior service cost	20.2	22.1
Unrecognized net actuarial gain	1.5	3.3
Accrued postretirement benefit cost	$ 48.3	$ 49.2

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs."

At December 31, 2000 and 1999, the weighted-average assumption used in developing the postretirement benefit obligation was 7.5 percent.

For measurement purposes, an 8.75 percent annual rate of increase in the cost of covered health care benefits was assumed for 2001. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.50 percent by 2008, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2000 (in millions):

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 0.1	$ (0.1)
Effect on accumulated postretirement benefit obligation	1.1	(1.0)

The following is a summary of the components of net periodic postretirement benefit costs for the years ended December 31 (in millions):

	2000	1999
Service cost-benefits earned during the period	$ 0.7	$ 0.8
Interest cost of accumulated benefit obligation	1.8	1.6
Amortization of prior service cost	(2.0)	(2.0)
Net periodic postretirement benefit costs	$ 0.5	$ 0.4

Net periodic postretirement benefit costs are reported as a component of "Salaries and other benefits."

Postemployment Benefits:

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, and disability benefits. Costs were projected using the same discount rate and health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit costs recognized by the Bank at December 31, 2000 and 1999, were $5 million for both years. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were $1 million for both years.

Volume of Principal Operations (Unaudited)

	2000	1999
Loans and Discounts, Daily Average	$ 49,702,000	$ 24,745,000
Number of Institutions Borrowing	167	150
Commercial Checks	$ 1,094,593,000,000	$ 1,041,760,000,000
Commercial Checks Collected	1,552,869,000	1,482,924,000
Currency Receipts and Payments	$ 40,443,309,000	$ 46,643,189,000
Pieces	2,748,537,000	2,965,343,000
Coin Receipts and Payments	$ 433,933,000	$ 300,445,000
Bags	759,000	612,000
Issues and Redemption of U. S. Government Securities	$ 96,860,134,000	$ 111,801,200,000
Funds Transfers	$ 5,566,421,000,000	$ 5,625,860,000,000
Numbers	4,074,000	3,873,000
Automated Clearing House	$ 465,678,000,000	$ 399,546,000,000
Numbers	330,739,000	264,389,000

Volume of Principal Operations numbers were not included in PricewaterhouseCoopers audit.

Tenth Federal Reserve District

Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198

Denver Branch
1020 16th Street
Denver, Colorado 80202

Oklahoma City Branch
226 Dean A. McGee
Oklahoma City, Oklahoma 73125

Omaha Branch
2201 Farnam Street
Omaha, Nebraska 68102

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