1996 Annual Report

Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City is one of 12 regional Reserve Banks which, together with the Board of Governors in Washington, D.C., comprise the nation's central bank.

The Federal Reserve is responsible for formulating and conducting monetary policy, supervising banks and bank holding companies, and providing financial services to depository institutions, the federal government, and the public.

The Kansas City Bank has served the Tenth Federal Reserve District since 1914. The district includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri. Branches operate in Denver, Oklahoma City, and Omaha.

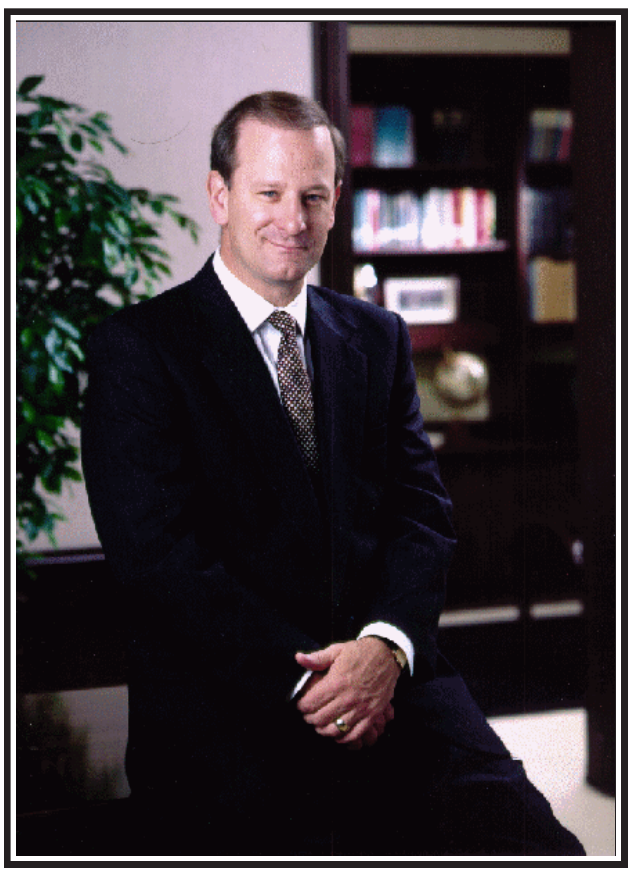
President's Statement

Public confidence in the institutions that undergird our nation's economy is essential if society is to achieve its broad economic goals. As one of the institutions whose effective performance is important to the economic well-being of the nation, we at the Federal Reserve Bank of Kansas City are committed to earning and maintaining public confidence by effectively meeting the challenges of a continuously evolving economy and its rapidly changing financial system.

Over the past year, I believe that the people of the Kansas City Fed have done an exceptional job in meeting today's demands while anticipating and preparing to meet tomorrow's challenges. This report describes the Bank's accomplishments during 1996, noting both the day-to-day work we do to meet our objectives and describing some of the broader evolving issues that command our attention in monetary policy, banking supervision, and financial services.

As for monetary policy, the Bank contributed in 1996 to the formulation and implementation of Federal Reserve policies that were successful in helping restrain inflationary pressures in the nation's economy while at the same time promoting sustainable economic growth. To develop our policy recommendations, we analyzed the regional, national, and international economies and produced research that offered insights into macroeconomic issues. Importantly, we facilitated greater worldwide understanding of the importance of price stability to economic progress and the associated responsibility of central banks by hosting our twentieth economic policy symposium at Jackson Hole, Wyoming. A special section in this report describes the symposium and its findings.

In the area of banking supervision, the Bank provided strong leadership by implementing approaches in both safety and soundness and community reinvestment examinations that strengthened the quality of oversight while reducing burdens on banks. Other regulatory burdens were lightened as the Bank developed cooperative agreements among supervisors of state-chartered banks to



Thomas M. Hoenig,
President,
Federal Reserve Bank of Kansas City

lessen complications for such banks expanding across state lines. To ensure that we understood banking conditions and that our regulatory approaches were grounded in reality, Bank staff devoted considerable time in the field interacting with bankers, business persons, and community representatives.

With regard to its financial services, the Bank continued to provide active leadership in promoting paperless payments methods through electronic check presentment and adjustments, check imaging products, and increased use of the Automated Clearing House (ACH) for consumer, commercial, and government payments. In its day-to-day relationships with customers, the Bank strengthened its commitment to customer service through improved communications and new customer support systems, as detailed later in this report. To underline our customer commitment and to ensure that depository institutions were well informed about new service requirements and opportunities, Bank staff conducted a variety of field programs across the region for hundreds of attendees.

> ***At the Federal Reserve Bank of Kansas City, we acknowledge the public's high expectations for our performance.***

In all of these areas of the Bank's responsibility—monetary policy, banking supervision, and financial services—we know very well that the pace of change is likely to accelerate and that the requirements for effective and innovative performance will persist. In such an environment, we recognize that the Bank is strengthened importantly by the oversight, advice, and practical experience of the directors who serve the Bank and its Denver, Oklahoma City, and Omaha Branches. These 30 men and women from all over the region bring us perspectives that bolster our understanding and help us seek real-world responses and innovations in all our responsibilities. They deserve the thanks of everyone in the region.

At the beginning, I commented on the importance of public confidence in society's major institutions. At the Federal Reserve Bank of Kansas City, we acknowledge the public's and the banking industry's high expectations for our performance and the related scrutiny. Because of the outstanding commitment to service that characterizes our employees, I am certain that we will continue to demonstrate the leadership that will maintain your confidence in us.

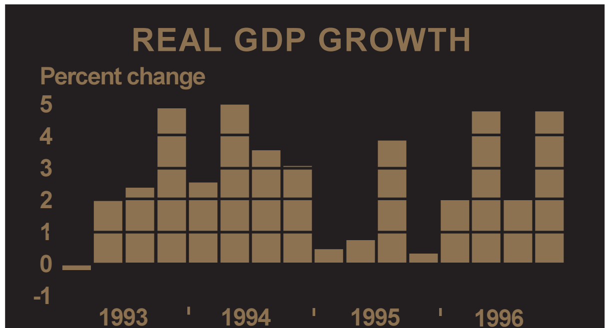
Thomas M. Hoenig

President

Monetary Policy

The Federal Reserve conducted monetary policy in 1996 to promote sustainable economic growth and progress toward price stability. Early in the year, policy was eased slightly in response to signs of a slowing economy and subdued inflationary pressures. Policy was unchanged over the rest of the year as economic growth returned to a more robust pace, and inflation remained moderate.

Concern about slower economic growth was widespread in early 1996. The economy was lackluster in late 1995 and still appeared sluggish at the beginning of 1996. With severe weather plaguing much of the country, industrial production and employment fell in January. The slower growth reduced concerns about inflationary pressures. In response to moderating growth and the improved inflation outlook, the Federal Reserve continued the easing of monetary conditions begun in late 1995. The discount rate was reduced from 5¼ percent to 5 percent in January 1996, and the Federal Open Market Committee (FOMC) decided the reduction should be fully reflected in the federal funds rate, which fell from about 5½ percent to 5¼ percent.



The economy rebounded quickly in early 1996 partly in response to monetary easing, posted an exceptionally strong second quarter, and duplicated that strong showing late in the year.

Buoyed in part by the monetary easings in late 1995 and early 1996, the economy quickly rebounded. Economic indicators such as employment showed sizable gains in February and March. With this pickup in growth offsetting the January slowing, real economic activity advanced at a 2 percent rate in the first quarter. Lower interest rates in late 1995 and early 1996 helped to boost spending on durable consumer goods, business equipment, and housing. But a deterioration of the trade balance and a fall in inventories held back economic growth. The automotive sector accounted for most of the inventory correction, as the industry worked off the excessive inventories accumulated in late 1995.

The economy accelerated sharply in the second quarter of 1996. Real economic activity grew at a 4.7 percent rate, led by government expenditures, consumer spending on durable goods, business equipment investment, and residential construction. The surge in government spending reflected a return of federal expenditures to normal levels following the government shutdowns of late 1995 and early 1996. Expenditures on consumer durables and housing were strengthened by faster job growth and rising consumer confidence. A decline in the trade balance again held back the economy, although a pickup in exports made the trade balance less of a drag on growth than in the first quarter.

The brisk growth of the first half of 1996 was accompanied by moderate inflation. Higher food and energy prices pushed inflation in the overall consumer price index (CPI) up from 2.7 percent in 1995 to a 3.5 percent rate in the first half of last year. But the core CPI, which excludes food and energy prices, advanced at a 2.8 percent annual rate, down slightly from the 3 percent pace in 1995. The pace of expansion kept labor markets tight, however, exerting some upward pressure on wages and salaries. Because the economy was growing robustly and inflation pressures were moderate in the first half of the year, the FOMC left monetary policy unchanged after the January easing.

The economy continued to grow at a healthy pace in the second half of the year. In the third quarter, real economic activity grew at a moderate 2.1 percent annual rate, as somewhat higher market interest rates and slower income growth reined in spending. Economic growth also slowed because government spending returned to the downward trend of recent years. Business equipment spending remained a source of strength in the third quarter, and firms replenished their inventories in anticipation of further growth. The economy accelerated in the fourth quarter, propelled by faster growth in consumer spending and a surge in exports.

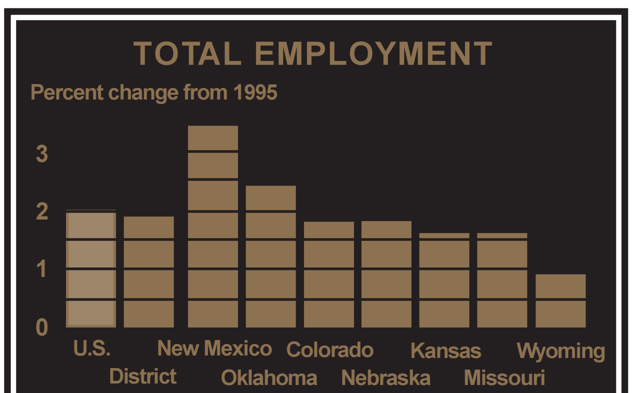
The pace of expansion in 1996 was strong enough to reduce the unemployment rate to 5.2 percent in August, matching the lowest rate of the 1990s.

While the economy expanded solidly in the latter half of 1996, inflationary pressures remained subdued. The pace of expansion was strong enough to reduce the unemployment rate to 5.2 percent in August, matching the lowest rate of the 1990s. Although the labor market tightness generated some upward pressure on wages, broad measures of consumer price inflation declined. Overall CPI inflation slowed to 3 percent in the second half of the year, and core CPI inflation slowed to 2.4 percent. With the economy growing at a solid pace and inflation subdued, monetary policy was unchanged in the second half of 1996.

Overall, the economy was very healthy in 1996. After a slow start, real economic activity expanded at a robust pace and consumer price inflation was moderate. The Federal Reserve sought to adjust monetary policy so as to promote these favorable conditions. Policy was eased early in 1996 when the economy slowed, and was unchanged over the rest of the year as economic growth resumed a stronger pace and inflation pressures remained subdued.

Regional Economy

The Tenth District economy grew at a moderate pace in 1996, with growth slowing somewhat from the rapid pace set in 1995. Reflecting the slowdown in overall economic activity, the growth in total employment also slowed, falling behind the nation's pace of employment growth for the first time during the current economic expansion. Economic performance remained uneven across individual district states. New Mexico continued to post the strongest gains due to strength in construction, services, and manufacturing. Economic growth in Oklahoma, while not as strong as in New Mexico, was well above the district average. Colorado and Nebraska posted gains near the district average, while gains in Kansas, Missouri, and Wyoming were more modest.



Tenth District employment growth fell below the national rate for the first time in the current expansion.

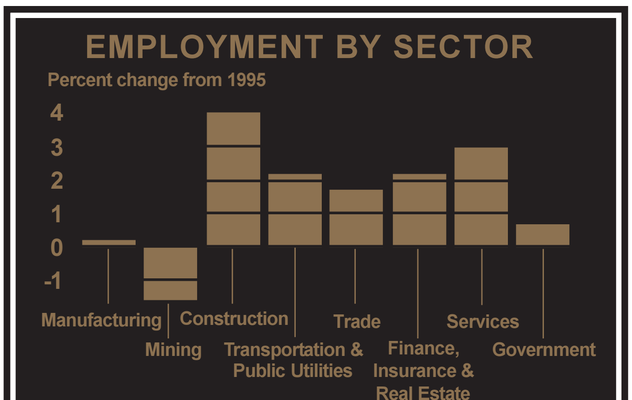
Construction continued to lead all sectors of the district economy in 1996. Residential construction was strong throughout the district, staying well ahead of its 1995 pace despite some slowing in housing activity as the year progressed. Commercial construction and public building projects, like roads and schools, were also healthy across most parts of the district.

District manufacturing generally improved in 1996, and most factories continued to operate at high levels of capacity. Manufacturing activity was especially strong in the first half of the year before slowing somewhat in the second half. A strong national economy and healthy export markets led to robust production gains for makers of automobiles, high-technology products, and other durable goods. Nondurable goods production, led by the region's important food-processing industry, stabilized in 1996 after posting modest job losses in 1995.

The district's energy industry stabilized in 1996 due to higher energy prices. Jobs in the mining sector, which includes energy production, held steady in 1996 after a sharp decline in 1995. District coal production, centered in Wyoming, continued to post solid gains. Increased coal shipments were achieved with few additions to the district's mining workforce, however, due to continued gains in efficiency.

Crude oil prices trended higher throughout much of 1996. The higher prices brought limited gains in exploration and development activity, stemming job losses in the energy industry in many parts of the region. Exploration activity was also spurred by natural gas prices that generally stayed above 1995 levels.

The service and trade sectors were solid forces in the district economy in 1996, although their pace of growth slowed considerably from 1995. The service sector added jobs at a moderate pace across the district. Business and health services remained strong in all metropolitan areas of the district. Service growth was also strong in some of the district's rural areas, a welcome change from more sluggish growth in recent years. The district's tourism industry—centered in the Rocky Mountains and southern Missouri—continued to boost overall growth in services and retail trade by drawing strength from the national economy. Another service-related industry, wholesale and retail trade, expanded throughout the district in 1996, but at a considerably slower pace than in 1995.

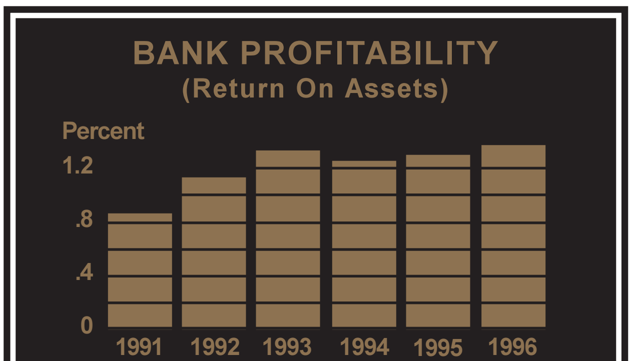


Construction continued to lead all sectors of the district economy in 1996.

Tenth district agriculture had a mixed year. Crop producers enjoyed a banner year due to big crops and prices at record levels for several months of the year. District wheat producers had a small crop due to drought conditions in early 1996, but many growers made up for the lost income by planting their wheat fields to grain sorghum. The district's corn and soybean crops were big and prices were high. Offsetting the strong income for crop producers was a year of sizable losses in the district's important cattle industry. As feed costs rose in early 1996, many cattle producers sent more cattle to market, forcing cattle prices down. As a result, cattle feeders lost money for many months of the year, and ranchers posted losses the whole year. As 1996 drew to a close, however, rising cattle prices and lower feed costs signaled a turnaround for the cattle industry.

Looking ahead, the district economy should grow moderately in 1997. While services, construction, and manufacturing may slow somewhat further, they will continue to support steady growth in the region's economy. Energy prices may linger at current high levels for at least part of the year, helping the energy industry remain stable or post modest gains in 1997. Continued improvement in livestock profits along with generally favorable crop prices should lead to a good year for district agriculture.

For most Tenth Federal Reserve District banks, 1996 was a good year. District banks reported their fourth straight year of strong earnings and, while loan portfolios expanded, asset quality remained strong as nonperforming assets stayed near historic lows. However, some district banks experienced an increase in consumer loan delinquencies and charge-offs, primarily in their credit card portfolios. Nonperforming loans also increased for agricultural banks in areas of the region affected by drought in the first half of the year.



Tenth District bank earnings continued to be strong, reaching 1.37 ROA through September 1996. If that level holds through yearend, it will be the highest on record.

Tenth District banking continues to become more concentrated as banks in the region merge and/or are acquired by large out-of-district banking organizations. The number of banks in the district fell by 2.6 percent through September 1996. Since 1991, the number of banks in the district has declined by 23 percent. Within the consolidating regional banking scene, however, banks remain competitive through offerings of new financial services such as debit cards, Internet banking, and other electronic banking products.

Increasing banking consolidation, complexity, and innovation challenge bank supervision to be flexible and responsive. To meet this objective, the Bank's supervision function was involved in a number of initiatives in 1996. One initiative was to implement an examination process that focuses on a bank's most risky activities and on its associated systems and controls. This risk-focused approach significantly reduced on-site exam time, lessened the burden for the supervised bank, and reduced the Reserve Bank's exam costs without compromising basic safety and soundness objectives.

Another 1996 initiative was the implementation of the new Community Reinvestment Act (CRA) regulation, which focuses supervisory assessments of CRA performance on the outcome of a bank's efforts to meet community credit needs. Under this new approach, CRA assessments more accurately reflect a bank's performance, associated supervision is reduced, and CRA exams are more consistent.

As banks have consolidated and begun operations across state lines, cooperation among supervisory agencies has become more important. An important accomplishment for the Bank in 1996 was the signing of cooperative agreements with the Federal Deposit Insurance Corporation and state bank supervisors in the region to create "seamless supervision" and a reduced supervisory burden for state-chartered banks that establish interstate branches.

Because of its regional presence, the Reserve Bank is uniquely positioned to represent banks and the banking public in forums involving supervision and regulation policy matters. During 1996, the Bank stepped forward in this role in a number of ways. For example, the Bank participated in Congressional hearings on the impact of the drought and high grain prices on rural banks, and conducted a series of banker roundtable meetings around the region to gather information on banking conditions and views on the supervisory process and other matters.

Responsive supervision requires open communications that promote bankers' understanding of supervisory issues while enhancing the Reserve Bank's knowledge of banking conditions and banker concerns. The Bank bolstered communication by hosting seminars on safety and soundness and compliance issues, and providing advisory sessions to help bankers understand new consumer legislation. The Bank also co-sponsored with the University of Missouri-Kansas City a conference to inform bank directors about emerging technologies in banking.

To support community development initiatives, the Bank hosted a "Financing Rural America" conference that explored ways to improve rural communities' access to capital markets. In addition, the Bank was involved in 70 seminars and workshops on development finance, fair lending, and community development to help lenders and communities understand the issues in making banking more accessible to a diverse population. The Bank also published material on CRA lending and issued a resource guide to financing housing and economic development.

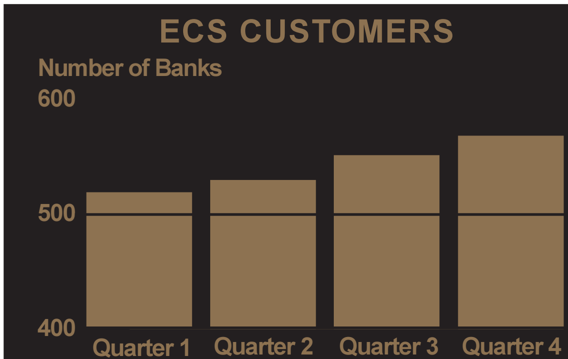
The 'Financing Rural America' conference in 1996 explored ways to improve rural communities' access to capital markets.

As part of its central bank responsibilities, the Bank lends funds to district depository institutions with short-term liquidity needs and, for qualified smaller institutions, longer-term seasonal credit. Liquidity tightened for some depository institutions in 1996; the Bank's lending was up 30 percent from 1995 levels.

In summary, given the dynamic and increasingly complex banking environment during 1996, the Bank worked to ensure that its supervisory and lending responsibilities were met effectively. In particular, the Bank implemented initiatives designed to improve supervisory responsiveness and reduce costs and supervisory burden. An important element in the Bank's progress was active interaction with bankers and the public on banking conditions and issues.

Financial Services

Within a dynamic financial services environment in 1996, the Bank continued to focus on efforts to promote efficiency in the payment system, particularly by encouraging development of paperless payment systems. In day-to-day operations, the Bank continued to strengthen its commitment to exemplary customer service by expanding and enhancing current product and service offerings and emphasizing improved customer communications and customer support systems.



The number of Bank customers receiving Electronic Check Services grew steadily in 1996, climbing to 35 percent of check processing customers.

Customer communications were enhanced through two new informational tools: a financial services section on the Bank's Internet web site and implementation of a fax-on-demand service. Customers accessed the web site 2,528 times from May through yearend, conveniently downloading 617 documents such as processing guides, product information, and the like. The fax-on-demand service combines facsimile, microcomputer, and software technology to give customers access to guides, fee schedules, Federal Reserve publications, and other documents through a phone call. Since implementation in July, 1,130 documents were requested and delivered through the service.

In addition to these measures for improving communications with its customers, the Bank installed a new automated customer information service that gives Bank representatives access to centralized data, allowing them to respond more quickly and more completely to customer needs.

To help Tenth District depository institutions improve their understanding of new financial service opportunities, guidelines, and emerging payments issues, the Bank hosted a variety of seminars across the region. One seminar focused on the Automated Clearing House (ACH) and ways institutions may begin to originate ACH items. Another series of programs provided information about implementation of the U.S. Treasury's Electronic Federal Tax Payment System (EFTPS). More than 800 depository institution representatives learned how to make tax payments for their customers by using debit and credit payments through electronic connections with the Bank. Other topics covered in field meetings included U.S. savings bonds procedures and instructions for making check adjustments electronically.

Much of the emphasis in the field programs, such as the electronic check adjustments effort, was on the Bank's ongoing commitment to promote paperless, electronic payments. In 1996, the Bank took another step toward removing paper from the payments system when it introduced check image services at all four Bank offices. These and other advancements to the Bank's electronic check presentment services helped boost the proportion of all "endpoints" that receive checks electronically to 35 percent.

Whether paper or electronic, the Bank's payment services undergo continuous review and enhancement. For example, the Bank began the conversion to a new check processing system in 1996, contributing to more efficiency and value for customers. In addition, the Federal Reserve System converted to centralized ACH software to improve customer service through increased speed, flexibility, and processing choices. Other improvements in both the cash and book-entry securities services software will benefit customers through better information and greater cost-effectiveness. The new centralized book-entry application improves customer access to book-entry statements. Early in 1998, all 12 Reserve Banks will have converted to this system, allowing for more rapid development and implementation of book-entry service upgrades for customers nationwide.

A new check processing system, instituted in 1996, provides additional efficiency and value for the Bank's customers.

Looking ahead, the Bank will continue in 1997 to be aggressive in determining and meeting customer needs and in conducting effective communication with customers. Further, to ensure that the Bank's services are revised and improved in line with customer expectations, the Bank will conduct a customer satisfaction survey in 1997 to gauge the Bank's progress since a similar survey in 1994. Customers will be asked to rate the Bank's product and service initiatives and customer service practices, and to suggest directions for future development. Analysis of the survey results and other ongoing customer contacts will guide the Reserve Bank in its resolve to encourage innovation and support a safe and efficient payments system.

SYMPOSIUM

For nearly 20 years, the Federal Reserve Bank of Kansas City has sponsored what is now recognized as one of the most significant annual economic policy conferences in the world. The Bank's annual symposium at Jackson Hole, Wyoming, brings together central bankers and other government officials, top academic economists, and representatives from U.S. and world financial markets. More than 100 officials and experts typically have gathered each year to examine a significant economic policy issue of the time, share research and experience, and seek to contribute both to the public debate and to public understanding.

From its beginning in 1978 when the symposium focused on potential growth in world agricultural trade, conferees have examined such topics as monetary policy issues, changing capital markets, financial market volatility, the emerging market economies of Central and Eastern Europe, and government deficits and debt.

* * *

The Bank's 1996 symposium brought together a distinguished group of experts to discuss the issue of "Achieving Price Stability." This issue was particularly timely and important to central bankers concerned about designing strategies to meet what many consider the only appropriate long-run goal of monetary policy — low or zero inflation.

'Achieving Price Stability' was an appropriate theme for the 1996 symposium as central bankers worldwide work to reduce inflation.

Distinguished speakers included Alan Greenspan, chairman of the Board of Governors of the Federal Reserve System; Stanley Fischer, first deputy managing director of the International Monetary Fund; Lawrence Summers, deputy secretary of the U.S. Treasury; Rudiger Dornbusch, a professor at the Massachusetts Institute of Technology; Bennett McCallum, a professor at Carnegie-Mellon University; John Taylor, a professor at Stanford University; Lars Svensson, a professor at Stockholm University's Institute for International Economic Studies; Martin Feldstein, president of the National Bureau of Economic Research; and the following central bank governors: Donald Brash of New Zealand, Jacob Frenkel of Israel, Josef Tosovsky of the Czech Republic, Jean-Claude Trichet of France, and Gordon Thiessen of Canada.

Also on the program: Otmar Issing, a board member of the Deutsche Bundesbank; Andrew Crockett, general manager of the Bank for International Settlements; Donald Kohn, director of monetary affairs for the Board of Governors of the Federal Reserve System; Mervyn King, chief economist and executive director of the Bank of England; Charles Freedman, deputy governor of the Bank of Canada; David Mullins, Jr., a principal in Long-Term Capital Management, L.P.; and Domingo Cavallo, former finance minister of the Republic of Argentina.

Chairman Greenspan opened the 1996 symposium, as he has in recent years, with welcoming remarks that set the stage for discussions. He offered what he called "an operating definition of price stability: Price stability obtains when economic agents no longer take account of the prospective change in the general price level in their economic decisionmaking."

The fact that central banks throughout the world are moving to adopt long-run price stability as their primary goal helped provide the impetus for the conference. With inflation in many countries still running above desirable rates, a key topic was how best to reduce inflation. After considering conceptual issues, speakers who have been successful in reducing inflation in their countries related their experiences. While their approaches differed, each had achieved dramatic results.

Some speakers advocated explicit inflation targets; others would use monetary aggregates as intermediate targets; still others favored legislative mandates or institutional changes such as the formation of a currency board.

While a variety of strategies for achieving price stability were proposed, one common thread emerged. All the strategies allowed monetary policy some capacity to accommodate shocks while still pursuing or maintaining long-run price stability. Many participants agreed that the greater a central bank's credibility, the more flexibility it will have when it needs to adjust policy.

It was particularly appropriate that the 1996 symposium focus on monetary policy in view of the Federal Reserve's outstanding record in helping keep inflation at or below 3 percent for five consecutive years, while at the same time allowing the economy to expand at a solid, but sustainable, rate.

* * *

At the close of the symposium, Andrew Crockett, a former executive director of the Bank of England, spoke of the unique "bonding experience" the conference has become for central bankers. He attributed that, "first and foremost, to the foresight with which the Kansas City Fed has selected fascinating subjects to discuss and the wide range of experience of the participants." He saved his final word for Thomas E. Davis, senior vice president and director of research, who retired at the end of January 1997. "Lastly, and especially, we know this is the last occasion Tom Davis will be here in his present capacity . . . and I would like particularly to say 'thank you' to Tom Davis for everything he has done over the years for creating and developing this conference."

Chairman Alan Greenspan and Kansas City Fed President Tom Hoenig presented Senior Vice President Tom Davis (center) with a plaque marking his contributions to the symposium over nearly 20 years. Mr. Davis, who has also been director of economic research, retired February 1, 1997.

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** Resigned August 19, 1996*
*** Effective September 12, 1996*

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Assistant Vice President

Omaha

Bradley C. Cloverdyke,
Vice President and Branch Manager

Steven D. Evans,
Assistant Vice President

Ronald M. Ryan,
Assistant Vice President

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

Tenth District Advisory Councils

Economic Advisory Council

Theron Black,
President, District Lodge 70, Machinists Retirement Club, Wichita, Kansas

Paula Marshall-Chapman,
Chairman and CEO, The Bama Companies, Tulsa, Oklahoma

Kathy Cosgrove Green,
CFP, Consumer Credit Counseling Service, Fort Collins, Colorado

Carol Crook,
Co-owner, Crook Farm, Nebraska City, Nebraska

Charles Frederickson,
Chairman, VICORP Restaurants, Inc., Denver, Colorado

Bernard L. Hansen,
President, Flint Hills Foods, Inc., Alma, Kansas

Karon E. Harris,
Executive Vice President, Blue Cross & Blue Shield of Kansas City, Kansas City, Missouri

Karen A. Hiller,
Executive Director, Housing and Credit Counseling, Inc., Topeka, Kansas

Wayne Nichols,
Owner, Nichols Agency, Santa Fe, New Mexico

A.F. "Tony" Raimondo,
President and CEO, Behlen Manufacturing Company, Columbus, Nebraska

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

Gerald L. Schleich,
Chairman, Austin Realty Group, Lincoln, Nebraska

G.W. "Bill" Swisher, Jr.,
Chairman and CEO, CMI Corp., Oklahoma City, Oklahoma

Richard E. Wheeler,
CEO, Wyoming Machinery Company, Casper, Wyoming

Barry Wilkinson,
Secretary Treasurer, Western Missouri and Kansas, Laborers' District Council, Kansas City, Missouri

Financial Services Customer Advisory Councils

Kansas City

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

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

Joye B. Haneberg,
Executive Vice President, Emprise Bank, Wichita, Kansas

Danny Little,
Executive Vice President and Director, Lamar Bank & Trust Company, Lamar, Missouri

Bruce B. Morgan,
Chairman, President and CEO, The Valley State Bank, Atchison, Kansas

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

Leland M. Walker,
President and CEO, First National Bank of Platte County, Kansas City, Missouri

Clark P. Young,
Vice Chairman, President and CEO, Citizens State Bank, Hugoton, Kansas

Denver

J.D. Aragon,
Vice President, First National Bank of Farmington, Farmington, New Mexico

J. Paul Boushelle,
Executive Vice President, First Security Bank of New Mexico, N.A., Albuquerque, New Mexico

Jean L. Burr,
Senior Vice President, Megabank of Arapahoe, Englewood, Colorado

Jack W. Calabrese,
Senior Vice President, First Data Corporation, Englewood, Colorado

John G. Geiken,
President—Norwest Operations Services, Norwest Bank Colorado, N.A., Denver, Colorado

Alan Lee,
Funds Manager, Corporate Float, Colorado National Bank, Denver, Colorado

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

Joseph D. Tinucci,
Executive Director, Rocky Mountain Automated Clearing House Association, Lakewood, Colorado

Oklahoma City

Joseph A. Sabatucci,
Senior Vice President, Treasurer and Cashier, Central National Bank, Poteau, Oklahoma

Dennis L. Gerhard,
Vice President, Central National Bank & Trust Co., Enid, Oklahoma

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

Karen L. Ekstrand,
Senior Vice President, The F & M Bank & Trust Co., Tulsa, Oklahoma

John Mark Cassil,
Senior Vice President, Liberty Bank & Trust Co., Tulsa, Oklahoma

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

Terry L. Croll,
Senior Vice President, Bank of Oklahoma, Tulsa, Oklahoma

Omaha

Ted Bohlen, Jr.,
President and CEO, Western Heritage Credit Union, Alliance, Nebraska

Sid Dinsdale,
President, Pinnacle Bank, Papillion, Nebraska

Alice Dittman,
Chairman and President, Cornhusker Bank, Lincoln, Nebraska

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

Donald Johnson,
President and CEO, The Farmers National Bank in Pilger, Pilger, Nebraska

Lloyd Kitrell,
President, Hastings State Bank, Hastings, Nebraska

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

FINANCIAL STATEMENT

STATEMENT OF INCOME

	1996	1995
INTEREST INCOME:		
Interest on U.S. government securities	$ 783,759,786	$ 935,626,475
Interest on foreign currencies	16,927,827	29,612,743
Interest on loans to depository institutions	1,132,022	932,450
TOTAL INTEREST INCOME	$ 801,819,635	$ 966,171,668
OTHER OPERATING INCOME:		
Income from services	50,787,341	47,833,700
Reimbursable services to government agencies	19,087,772	17,715,058
Foreign currency gains (losses), net	(63,832,062)	37,964,390
Government securities gains, net	1,129,151	158,280
Other income	260,678	303,876
TOTAL OTHER OPERATING INCOME	$ 7,432,880	$ 103,975,304
OPERATING EXPENSES:		
Salaries and other benefits	78,308,205	72,789,991
Occupancy expense	7,337,158	6,879,114
Equipment expense	6,980,082	5,237,404
Cost of unreimbursed Treasury services	2,624,738	2,910,429
Assessments by Board of Governors	18,685,611	19,627,114
Other expenses	50,394,333	44,839,532
TOTAL OPERATING EXPENSES	$ 164,330,127	$ 152,283,584
Income before cumulative effect of accounting change	644,922,388	917,863,388
Cumulative effect of change in accounting principle	0	(3,296,385)
NET INCOME PRIOR TO DISTRIBUTION:	$ 644,922,388	$ 914,567,003
DISTRIBUTION OF NET INCOME:		
Dividends paid to member banks	$ 10,052,800	$ 8,645,518
Transferred to surplus	23,005,650	12,585,700
Payments to U.S. Treasury as interest on Federal Reserve notes	457,250,081	893,335,785
Payments to U.S. Treasury as required by statute	154,613,857	0
TOTAL ALLOCATION OF NET INCOME	$ 644,922,388	$ 914,567,003

STATEMENT OF CONDITION

	1996	1995
ASSETS		
Gold certificates	$ 321,000,000	$ 382,000,000
Special drawing rights certificates	280,000,000	342,000,000
Coin	55,804,100	41,236,643
Items in process of collection	843,294,858	361,283,695
Loans to depository institutions	7,115,000	3,230,000
U.S. government and federal agency securities, net	12,349,450,830	14,590,732,674
Investments denominated in foreign currencies	737,300,775	797,467,315
Accrued interest receivable	111,403,267	148,407,525
Bank premises and equipment, net	78,489,286	72,858,964
Other assets	12,916,394	13,616,596
TOTAL ASSETS	$ 14,796,774,510	$ 16,752,833,412
LIABILITIES AND CAPITAL		
LIABILITIES:		
Federal Reserve notes outstanding, net	$ 12,434,974,495	$ 12,266,820,996
Deposits:		
Depository institutions	816,865,472	1,119,211,431
Other deposits	9,148,673	7,825,622
Deferred credit items	462,596,938	361,337,791
Statutory surplus transfer due U.S. Treasury	17,510,696	23,158,864
Interdistrict settlement account	650,155,425	2,610,097,299
Accrued benefit cost	54,305,603	52,088,189
Other liabilities	5,720,599	8,751,920
TOTAL LIABILITIES	$ 14,451,277,901	$ 16,449,292,112
CAPITAL:		
Capital paid-in	174,776,300	151,770,650
Surplus	170,720,309	151,770,650
TOTAL CAPITAL	345,496,609	303,541,300
TOTAL LIABILITIES AND CAPITAL	$ 14,796,774,510	$ 16,752,833,412

Financial Statement & Operational Highlights

STATEMENT OF CHANGES IN CAPITAL

For the Years Ended December 31, 1996 and December 31, 1995

	CAPITAL PAID-IN	SURPLUS	TOTAL CAPITAL
Balance at January 1, 1995 (2,783,699 shares)	$ 139,184,950	$ 139,184,950	$ 278,369,900
Net income transferred to surplus	-	12,585,700	12,585,700
Net change in capital stock issued (251,714 shares)	12,585,700	-	12,585,700
Balance at December 31, 1995 (3,035,413 shares)	$ 151,770,650	$ 151,770,650	$ 303,541,300
Net income transferred to surplus	-	23,005,650	23,005,650
Net change in capital stock issued (460,113 shares)	23,005,650	-	23,005,650
Surplus Transfer to the U. S. Treasury	$ -	$ (4,055,991)	$ (4,055,991)
Balance at December 31, 1996 (3,495,526 shares)	$ 174,776,300	$ 170,720,309	$ 345,496,609

These statements are prepared by Bank management.
Copies of full financial statements complete with footnotes are available by contacting the Public Affairs Department of the Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, Missouri, 64198-0001.

VOLUME OF PRINCIPAL OPERATIONS	1996	1995
Loans and Discounts, Daily Average	$ 21,239,000	$ 16,204,000
Number of Institutions Borrowing	156	187
Commercial Checks	$ 751,239,000,000	$ 684,528,000,000
Commercial Checks Collected	1,289,297,000	1,254,747,000
Currency Receipts and Payments	$ 30,785,785,000	$ 25,379,871,000
Pieces	2,261,408,000	2,075,621,000
Coin Receipts and Payments	$ 710,610,000	$ 600,122,000
Bags	1,139,000	1,054,000
Issues and Redemptions of U.S. Government Securities	$ 56,196,978,000	$ 101,175,080,000
Funds Transfers	$ 9,822,872,000,000	$ 10,058,915,000,000
Numbers	6,531,000	6,146,000

This annual report is also available on the Federal Reserve Bank of Kansas City's web site located at **http://www.kc.frb.org.**