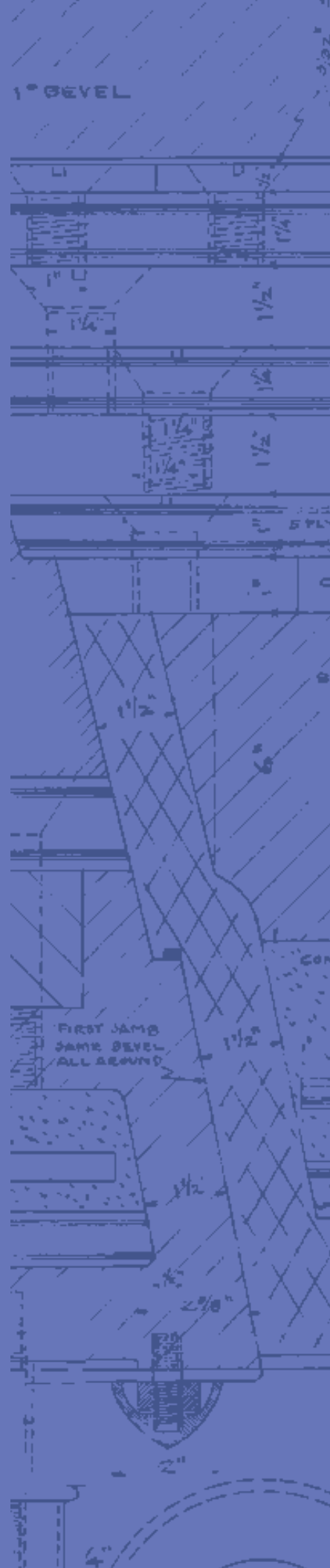


1997 ANNUAL REPORT

FEDERAL RESERVE BANK OF KANSAS CITY

A Building Plan for the Future



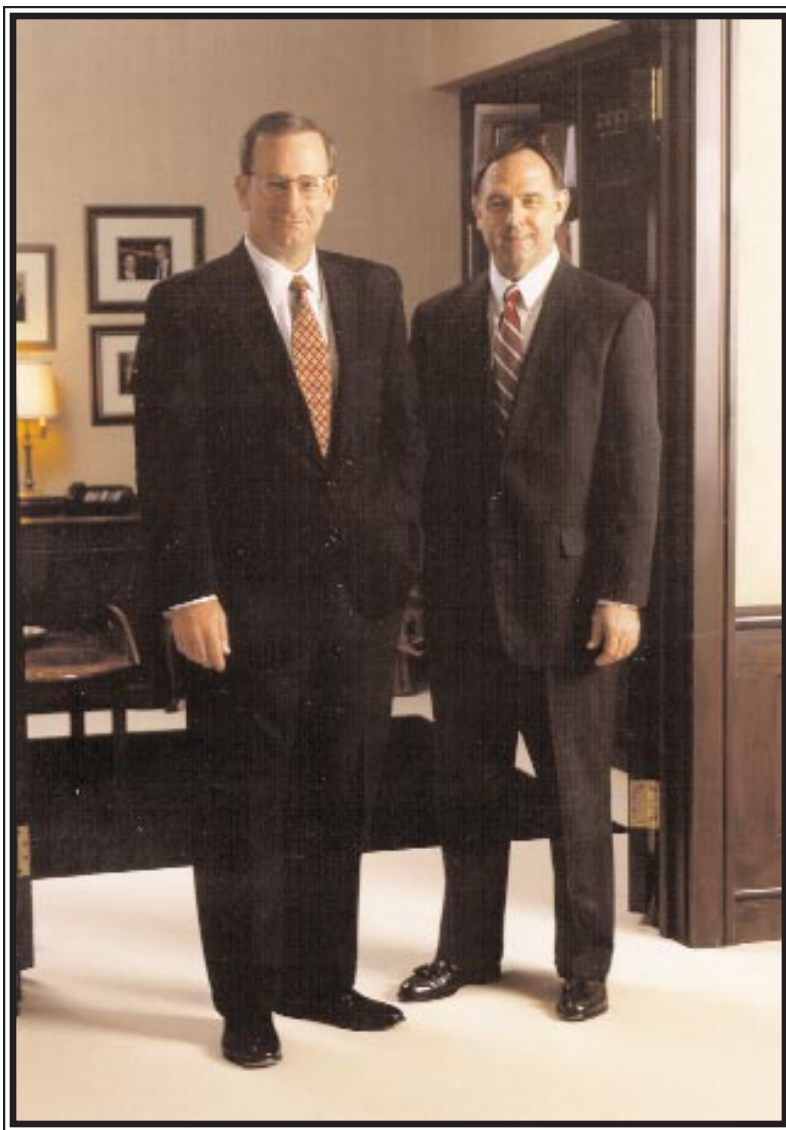
The Federal Reserve Bank of Kansas City is one of 12 regional Reserve Banks which, together with the Board of Governors in Washington, D.C., make up the nation's central bank.

As part of the Federal Reserve System, we are responsible for formulating and conducting monetary policy, supervising banks and bank holding companies, and providing payments services to depository institutions, the federal government, and the public.

The Kansas City Bank has served the Tenth Federal Reserve District since 1914. Although our responsibilities have remained fundamentally the same, how we conduct business has changed over time in response to evolving external forces.

Today, such factors seem to be changing our operating environment more rapidly than ever before. New technologies, banking consolidation, as well as the shift toward a more global district economy are transforming all our business areas.

Last year, in a move to adapt to change, we expanded our strategic planning process. As a result, this Annual Report not only addresses our 1997 accomplishments, but it also translates how our strategic plan—"A Building Plan for the Future"—will guide the way we carry out our central bank role.



As we look forward, we will need a strong, active central bank ... one that provides leadership to both large interstate organizations and thousands of smaller local banks ... one that is aware of and responsive to differences in economic activity across our country and around our world. The Federal Reserve Bank of Kansas City is proud to take its place in these efforts.

THOMAS M. HOENIG
President
and Chief Executive Officer

RICHARD K. RASDALL, JR.
First Vice President
and Chief Operating Officer

A BUILDING PLAN FOR THE FUTURE

—*Thomas M. Hoenig*



*Tom Hoenig,
President and
Chief Executive Officer*

A central bank is unique in the role it plays in a nation's economy. Yet, in many ways, the Federal Reserve Bank of Kansas City is like many other organizations trying to adapt to dramatic change in an evolving business environment. While change presents challenge, taking advantage of the opportunities change brings is essential to our success. As British mathematician and philosopher Alfred North Whitehead wrote, "The art of progress is to preserve order amid change and to preserve change amid order." In looking back at 1997, this definition of progress was what we sought to achieve.

As the national and regional economies posted exceptional performance, so too did our organization . . .

By almost every measure, 1997 was a stellar year for the Federal Reserve Bank of Kansas City. As the national and regional economies posted exceptional performance, so too did our organization by meeting and often exceeding the benchmark goals we set for ourselves. In the financial services arena, we surpassed our expectations in furthering the use of electronic check presentment and the Automated Clearing House (ACH). Moreover, by restructuring our bank supervision function, we introduced a more effective risk-

focused approach to financial examinations, enabling our examiners to provide more individualized and consistent service.

Remarkably, such achievements were realized with an operating budget that was almost \$3 million less than the previous year.

Our successes were particularly satisfying because they were achieved in an environment of accelerating change, much of it fueled by technological advancements, interstate banking, and further globalization of the district's economy. We were successful in adapting to these factors because our directors, officers, and employees continuously recognized and managed change throughout the organization.

This report highlights some of the steps taken this past year to address the environmental factors impacting the Kansas City Reserve Bank's role in monetary policy, the payments system, and bank supervision.

We were fortunate that our strong operational and fiscal performance coincided with solid economic performance. The national economy was exceptionally robust in 1997. Not only did the economy post strong growth, but it did so in

an environment of low unemployment and modest inflation. Such a sanguine economic environment, however, is neither automatic nor assured—meaning it is essential that we continue to focus the Bank’s research efforts to the contribution of sound regional input into the formulation of national monetary policy.

Monitoring the regional economy—a key element of our monetary policy input—is no small feat considering the enormous changes facing the Tenth District. While our region’s economy posted solid economic gains in 1997, it was profoundly influenced by external forces. Not only are consolidation and interstate banking continuing to remake the banking industry, but a new wave of technologies is transforming businesses generally.

Global markets beckon to the products of the Heartland as never before, opening vast new opportunities for our region. Although these changes bring promising prospects to our district, significant challenges remain in representing a region that is becoming increasingly linked to national and global markets.


These same forces continue to impact how we carry out other central bank responsibilities and evoke change within our organization. As we respond to further technological advancements in our role as a financial services provider, the Federal

Reserve is committed to informing banks of payments system developments and assisting them as they adapt to these changes. And, in doing so, we remain diligent in our effort to promote secure and efficient disbursement mechanisms for consumer, commercial, and government payments.

In the area of bank supervision, consolidation and the advent of new financial instruments and new payment methods are driving realignments in our supervisory structure. In response, we have modified our examination processes and increased our use of automation to share information and better understand the risks posed by complex financial transactions. By adjusting our supervisory practices to be more risk-focused, we have become not only more responsive and anticipatory, but less burdensome on the institutions we supervise.

We were successful in adapting to these factors because our directors, officers, and employees continuously recognized and managed change throughout the organization.

In spite of all the factors influencing our course of action, our fundamental mission remains the same—to foster the stability, integrity, and efficiency of the national monetary, financial, and payments systems to promote optimal economic performance.



Although we have “preserved order amid change” thus far, we are keenly aware it would be unwise to rest on our record. That is why in 1997 we revamped and expanded our strategic planning process to broaden its scope and make the process more meaningful to employees throughout the district. What resulted was our Strategic Planning Framework—“A Building Plan for the Future.” This document describes the Bank’s organizational philosophy and our vision to inspire trust and confidence in everything we do. This message also clearly defines, for all employees, the factors critical to our future success.

Because this framework will guide how we carry out our central bank charge, we thought it only appropriate to share elements of this strategic plan and insights into its development. In light of this, our Annual Report is a departure from past years. While it conveys our 1997 accomplishments, it also identifies the changes affecting our organization and defines how we are planning to meet the challenges that remain ahead for the Federal Reserve Bank of Kansas City as well as the financial services industry.

Tom Hoenig has been president and chief executive officer of the Federal Reserve Bank of Kansas City since October 1991. He is only the eighth chief executive in the bank’s 84-year history. In addition to directing Federal Reserve activities in the seven-state Tenth Federal Reserve District, he is a member of the Federal Open Market Committee, the key body with authority over national monetary policy. He currently serves as board chairman for Benedictine College, as a member of the board of directors for the University of Missouri-Kansas City, as a member of the banking advisory boards at UMKC and at the University of Missouri-Columbia, and as a trustee of Midwest Research Institute. He received his undergraduate degree from Benedictine College and his M.A. and Ph.D. degrees in economics from Iowa State University.