A Diverse Landscape

2000 Annual Report
Federal Reserve Bank of San Francisco

Twelfth District at a Glance

The Twelfth District represents:

- More than one third of the nation's landmass
- One fifth of the nation's population
- One fifth of the nation's economy

The Twelfth District leads the nation in:

- Agricultural production
- High technology production
- Aerospace production
- Exports to East Asia
- Population growth

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From left (standing):

George M. Scalise, Deputy Chairman
Robert T. Parry, President
John F. Moore, First Vice President

Seated:
Nelson C. Rising, Chairman
Gary G. Michael, Chairman (retired)

From the Boardroom

The year 2000 was an extraordinary one for the Bank, bringing with it sweeping internal and external changes. At the outset, the successful rollover to a leap year in a new century, more commonly known as Y2K, concluded many months of hard work on this effort by our dedicated employees. We then focused on the future by restructuring our operations and administrative areas along functional, rather than geographical, lines. This major change allows us to become a more agile and efficient organization, more responsive to customer needs. Also, as a result of financial modernization legislation, the Bank quickly adjusted to its new role as “umbrella” supervisor of financial holding companies.

In this report, we illustrate the diversity of the environment in which our work is accomplished. The Twelfth Federal Reserve District is distinct in terms of its geography, its significant contribution to the national economy, and its cultural richness. The report also features a range of the initiatives we undertake that both shape and reflect our diverse environment, ranging from constructing a new currency processing center in Arizona to developing the Sovereign Lending Initiative, established in order to increase access to credit for American Indian Sovereign Nations. Our ability to be innovative in our diverse landscape reflects the contributions and dedication of our employees.

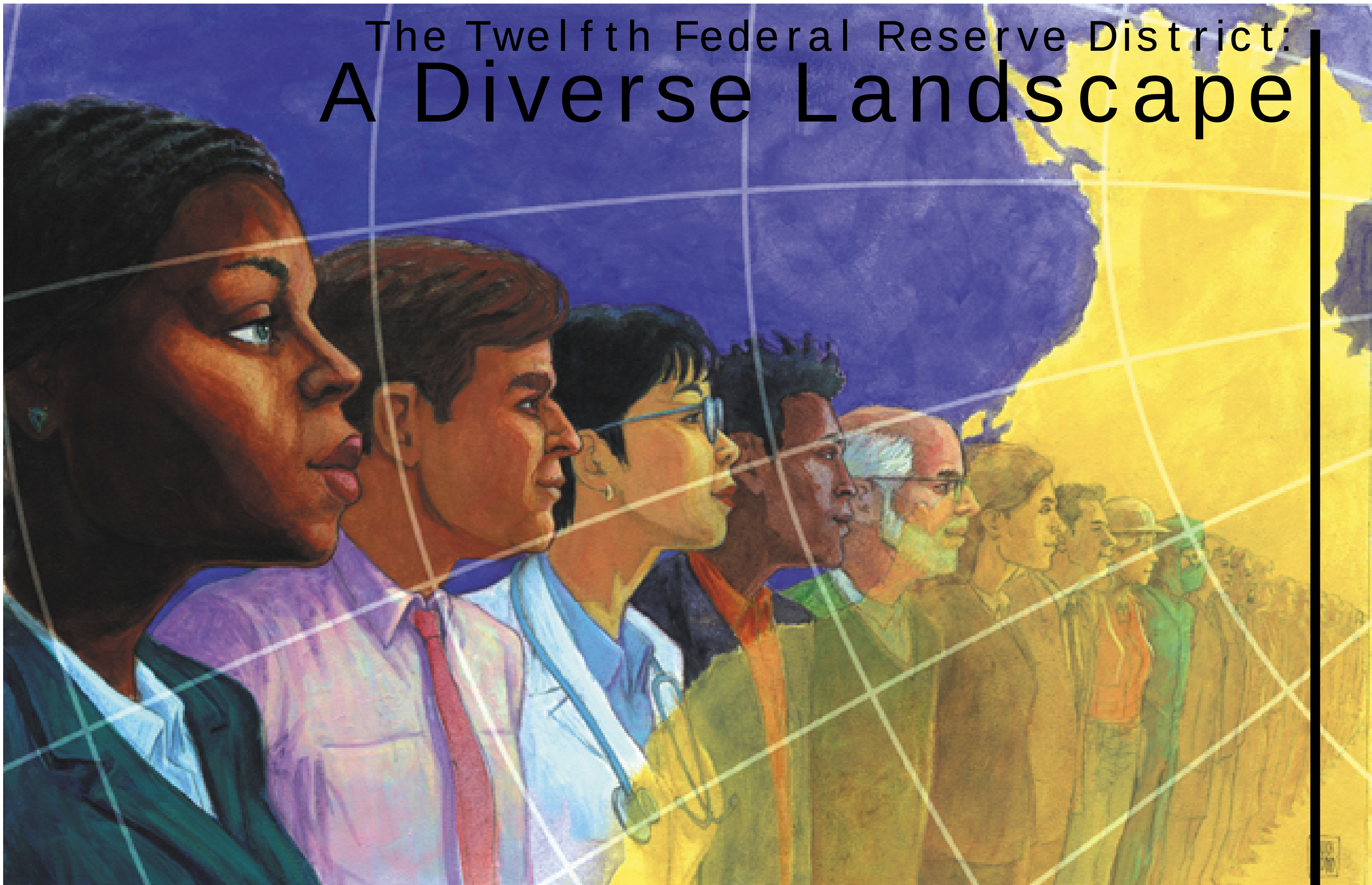
We would like to extend our thanks and appreciation to our Twelfth District directors for their invaluable counsel during 2000. The directors’ independent assessment of economic and financial conditions throughout our nine western states is critical to the formulation of monetary policy. In particular, we acknowledge the outstanding leadership and many contributions of Gary G. Michael (Chairman and Chief Executive Officer, Albertson’s, Inc., Boise, Idaho) who stepped down after serving this Reserve Bank District in various capacities for the past eleven years, the last three as Chairman of the Board.

In addition, we would like to express our sincere thanks and appreciation to the other directors who completed their terms of service during 2000: on the Head Office Board, Krestine Corbin (President and Chief Executive Officer, Sierra Machinery, Inc., Sparks, Nevada) and John V. Rindlaub (President, Northwest Banking, Bank of America, Seattle, Washington); on the Los Angeles Branch Board, Liam E. McGee (President, Bank of America—Southern California, Los Angeles, California); on the Salt Lake City Branch Board, R. D. Cash (Chairman, President, and CEO, Questar Corporation, Salt Lake City, Utah) and Jon M. Huntsman, Jr. (Vice Chairman, Huntsman Corporation, Salt Lake City, Utah); and, on the Federal Advisory Council, Twelfth District Member, Walter A. Dods, Jr. (Chairman and CEO, BancWest Corp., Honolulu, Hawaii).

Nelson C. Rising
Chairman

Robert T. Parry
President

The Twelfth Federal Reserve District:
A Diverse Landscape



Civilizations should be gauged by "the degree of diversity attained and the degree of unity retained."

— W.H. Auden

About the Twelfth District

By any measure, diversity is a hallmark of the Twelfth Federal Reserve District. The diverse landscape, whether in terms of geography, growth, or cultural richness, creates special challenges for the Bank and its Branches in carrying out its many responsibilities. But the District's diversity also provides interesting and unique opportunities to innovate, lead, and contribute while serving the needs of customers and constituents.

The Twelfth District covers an enormous geographical area: approximately 35 percent of the nation's landmass. Its nine states—Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington—account for close to one-fifth of the nation's population, employment, and personal income. The District also serves the Pacific Island territories of American Samoa and Guam, and the Commonwealth of the Northern Mariana Islands.

If the Twelfth District were a separate country, it would rank as the fourth largest economy in the world.[1] This simply serves to illustrate that the District plays a vital economic role; indeed, the District's states contribute to the overall economy in wide-ranging ways. California is known as the center of high technology, but the state also produces the most agricultural goods in the U.S.; Washington leads the nation in aerospace production and exports; and one-sixth of the country's oil is produced in Alaska.[2]

In addition to the District's sheer size and diversity, its recent economic performance also distinguishes it from other parts of the country. Over the past decade, the District's economy and population grew significantly faster than the rest of the nation;[3] jobs increased 24 percent for the District, despite its relatively later recovery from the recession, versus 20 percent for the rest of the U.S.[4] Finally, the District is rich in its ethnic and cultural diversity.

Job Growth

Over the past five years, the District has increased its nonfarm payroll employment by 17 percent, above the 11 percent increase recorded for the rest of the nation.[5] During that period, both Nevada and Arizona experienced sustained economic booms, with five-year job increases of 31 percent and 24 percent, respectively, the largest increases in the nation.

More recently, the Twelfth District added payroll jobs at a rate of approximately 2.9 percent in 2000, twice as fast as the rest of the

The institutions supervised by the Federal Reserve Bank of San Francisco are remarkably diverse in terms of size, complexity, and business mix. For example, the District's smallest state member bank is a community start-up with less than $20 million in assets. In contrast, its largest domestic bank is a holding company that operates nationwide with nearly $300 billion in assets, and its subsidiaries are engaged in activities ranging from traditional commercial banking and consumer finance to securities underwriting and insurance. In addition, the Bank supervises the Charles Schwab Corporation, which is unique in that the vast majority of its $35 billion in assets resides not in a bank but in a retail brokerage firm. The Bank also supervises global institutions that operate in the United States.

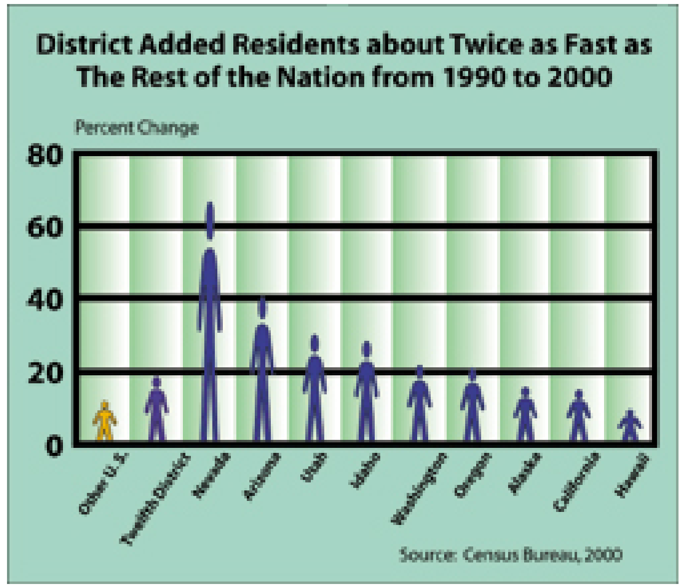
Supervision of this diverse set of financial service providers requires coordination with a variety of other regulatory bodies, such as the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, state banking and insurance commissioners, foreign supervisory authorities, and the Securities and Exchange Commission. As a result, staff in the Banking Supervision and Regulation Division receive frequent opportunities to develop a variety of technical and behavioral skills, such as evaluating strategic business plans, understanding how new activities like merchant banking and e-banking impact institutions' risk profiles, assessing the various risk management techniques deployed by the District's diverse institutions, judging compliance with various regulations, and building cooperative relationships. Moreover, they use these skills in a variety of contexts, such as providing input into the development of new supervision policies and practices and enhancing outreach to financial institutions and other regulatory bodies.

Sidebar

Portfolio of Institutions

nation. As the accompanying chart shows, the District had six of the nation's ten fastest growing states last year: Nevada, Arizona, Idaho, California, Utah, and Hawaii.


Year 2000 Job Growth Rates for the 50 States and the District of Columbia


District Added Residents about Twice as Fast as The Rest of the Nation from 1990 to 2000

Population Growth

Strong job growth has contributed to both the Twelfth District's population growth and its population diversity. During the past decade, the District population increased 19 percent, while that of the rest of the nation rose 12 percent.[6] In addition to natural population growth—births less deaths—the District experienced a strong inflow of new residents from overseas. Nevada and Arizona led the nation in adding new residents in the past decade, with 10-year population growth of 66 percent and 40 percent, respectively.[7]

Rapid population growth in a number of District states has created the need for additional infrastructure. This robust growth is also a factor in increasing the demand for a variety of financial services in these states in recent years.

In response to the brisk growth in commerce and financial services, and in order to continue to provide high quality services to depository institutions, the Federal Reserve Bank of San Francisco will open a cash services facility in Phoenix, Arizona, in September 2001.

Sidebar

Phoenix Processing Center

InDepth Look

The Phoenix Processing Center

The Phoenix Processing Center is the first facility in the 88-year history of the Federal Reserve devoted exclusively to receiving, processing, and distributing currency. An internal Federal Reserve study recommended building a cash processing center in Phoenix to better serve the needs of Arizona, and the Board of Governors approved the concept in November 1998.

Until the Center begins operation in the Fall of 2001, the costs of transporting cash between Arizona and the Los Angeles Branch, some 400 miles apart, will continue to be borne by financial institutions. The Federal Reserve currently serves five major cash customers in Arizona, which in turn provide services to the other institutions in the state.

At present, the Arizona market accounts for about 11 percent of currency processing at the Los Angeles Branch, which processes the most currency of any Federal Reserve office in the nation. Transferring cash to the Center will free up much-needed capacity in the Branch.

Construction of the Phoenix Center began in earnest in March 2000, when the Board of Governors gave its final approval. The Bank looked at 38 separate sites before deciding on the 7.4-acre location at the intersection of McDowell Road and 47th Street in west Phoenix; the groundbreaking ceremony took place in May 2000. The Center is the first Federal Reserve-owned facility in a new city since the establishment of the Miami Branch in 1973.

The 65,000-square-foot facility is the fourth largest cash vault in the entire Federal Reserve System. It will be the first in the Twelfth District to use a completely automated materials handling system for currency storage.

The Phoenix Processing Center is expected to employ a total of 50 people from the Federal Reserve and the local area. In Fall 2001, a grand opening ceremony will take place at the site, officially acknowledging a historic addition to the Federal Reserve System.

Expansion Driven by Technology

One key factor in the Twelfth District's expansion over the past decade has been the surge in high technology-related activities, ranging from manufacturing and software to venture capital financing for high technology firms. The District has a larger overall share of jobs, earnings, and exports from high technology industries than does the rest of the nation; while the District has 19 percent of all U.S. jobs, it has 30 percent of the country's high technology manufacturing jobs. California dominates the nation's venture capital activity, typically the source of funds for high technology start-up ventures.

While Silicon Valley remains the nation's high technology hub, important high technology centers are now spread across many of the District's metropolitan areas, including other parts of the San Francisco Bay Area, Southern California, Sacramento, Seattle, Portland, Phoenix, Boise, and Salt Lake City.

Located within this hub of much of the nation's high technology activity, the Federal Reserve Bank of San Francisco utilizes web and other modern technological developments in its day-to-day operations. In 2000, the Bank launched various initiatives to add value to a long-existing automated process: electronic payments.

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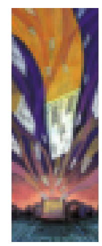
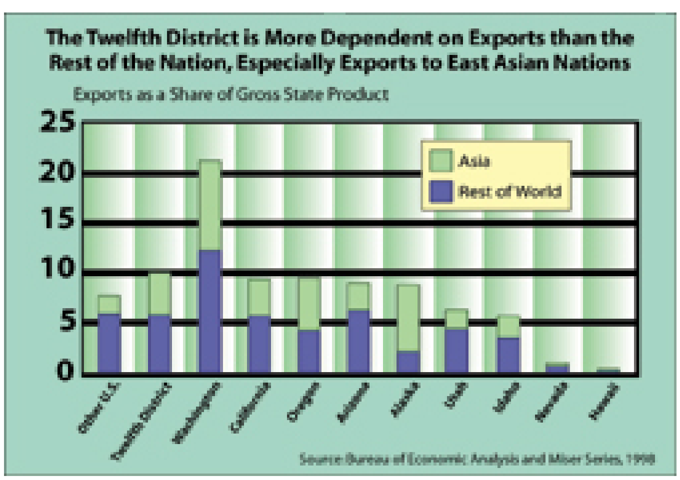


Exports to East Asia

While half of the Twelfth District's goods exports are from the high technology sector, aerospace and agriculture also play very important roles. Not only is the District dependent on these export products in particular, but as the chart below indicates, it is also heavily dependent on a range of exports to East Asian markets. Following the turbulence in the late 1990s, improvement in East Asian economies in 2000 clearly benefited the District's exports and economy, although some of these economies slowed late in the year.



In recognition of the importance of the Pacific Basin region to the District, in 1990 the Bank established the Center for Pacific Basin Monetary and Economic Studies within the Economic Research Department. The Center works to promote cooperation among central banks in the Pacific Basin and to enhance public understanding of economic policy issues in the region. Also, the Banking Supervision and Regulation Division conducts an international program that includes supervision of foreign banking organizations from the Pacific Basin and elsewhere.

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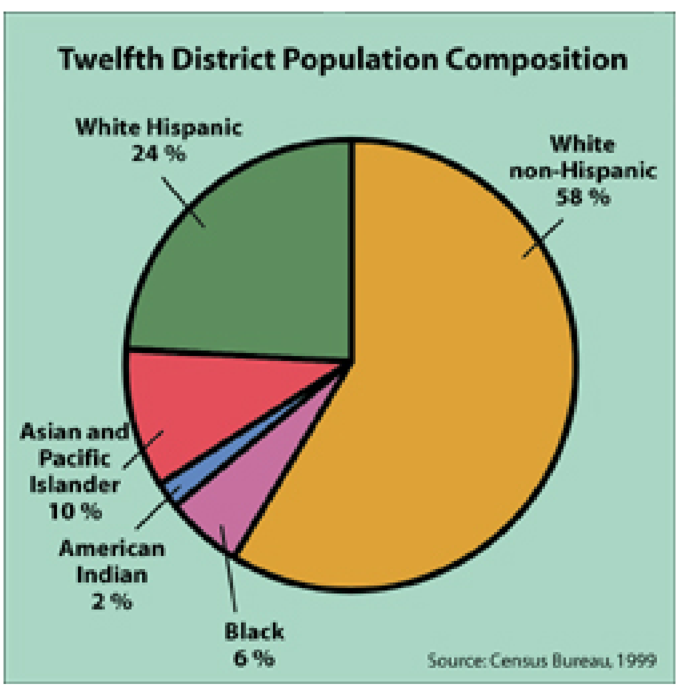
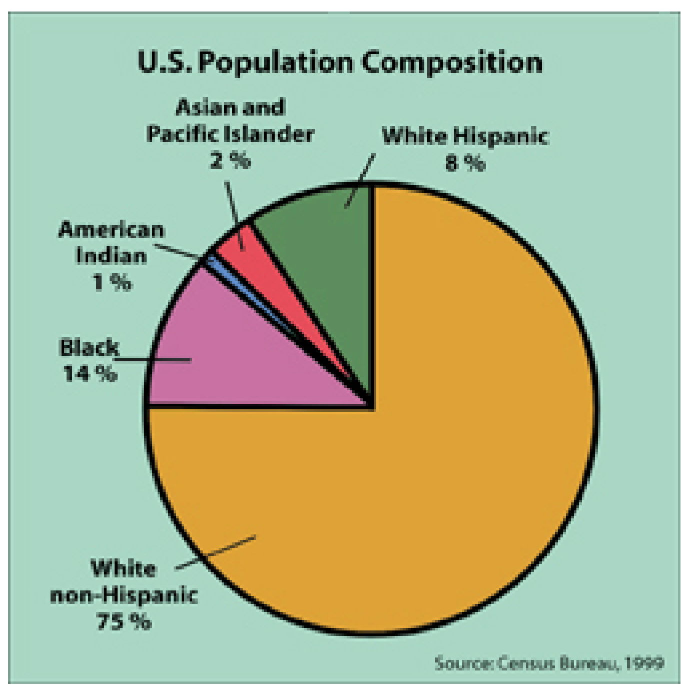
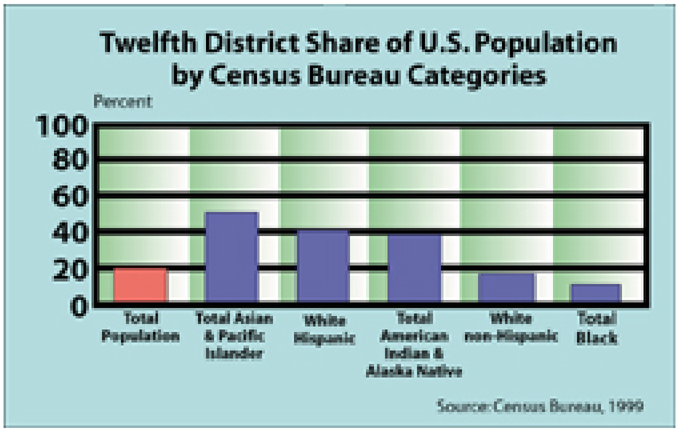
Population Diversity

The District's population is much more diverse than that of the nation. Based on 1999 Census Bureau figures and classifications, only one quarter of the nation's population outside the District was either White Hispanic[8], Black, Asian and Pacific Islander, or American Indian and Alaska Native; in the Twelfth District that figure was 42 percent. Moreover, the District's diversity is increasing; over the past decade, international immigration accounted for a much larger share of net population growth in the region than in the nation.[9]





Relative to the nation as a whole, the Twelfth District has particularly strong representation by three demographic groups: Asian and Pacific Islander; White Hispanic; and American Indian and Alaska Native. While the District accounted for approximately 20 percent of the nation's total population in 1999, it is home to 51 percent of the nation's Asian and Pacific Islanders, almost 42 percent of the nation's White Hispanics, and 38 percent of the nation's combined total of American Indians and Alaska Natives.



The relatively high concentration of American Indians in the Twelfth District is especially relevant to the Bank's efforts to encourage the development of financial services to Sovereign Nations.

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Sovereign Lending Initiative

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Serving a Diverse Community

Through outreach programs, the Bank seeks to educate the public about the Federal Reserve and promotes financial and economic literacy.

The Bank is engaged in numerous activities that respond to the needs of the District's diverse environment. English poet W. H. Auden said that civilizations should be gauged by "the degree of diversity attained and the degree of unity retained." By that measure, the Twelfth District surely ranks high.

Sidebar

Education Services

InDepth Look

In order to communicate with its large and diverse audiences, the Bank utilizes various strategies in its outreach program. Leveraging the new technologies of the Internet is one of these strategies; for example, the American Currency Exhibit web site, *http://www.frbsf.org/currency/index.html*, offers a virtual tour of one of the most comprehensive historic currency collections in the country.

The Bank is committed to providing teachers with educational resources in the form of curriculum materials, classroom activities, videos, and CD-ROMs. Educators also may attend workshops, conferences, and presentations featuring Bank economists and education specialists. In 2000, the Bank held the Economics Challenge competition for over 400 high school students in the Twelfth District, and it introduced a new video, *The Fed Today*, narrated by television journalist Charles Osgood, to educators across the Federal Reserve System. The Bank also hosted a variety of seminars for representatives of business organizations.

Additionally, more than 9,000 visitors were able to take advantage of the District's tour programs at its various offices during the year. The tours include visits to a variety of work areas, including check processing and cash vaults. At the San Francisco office, the tour begins with a lively video that includes a historical background of the Federal Reserve, and a clear explanation of its role in the nation's economy. Tour visitors also may view the American Currency Exhibit at the San Francisco headquarters.

Federal Reserve employees are active as volunteers in their communities around the Twelfth District. A variety of activities takes place at the Branch offices, including toy and clothing drives, school supply donations, and blood drives.

The Federal Reserve Outreach Group (FROG) was created in 1998 to provide volunteer opportunities for employees at the San Francisco office. Organizations that benefited in 2000 include the Walden House Foundation, the San Francisco AIDS Foundation, the March of Dimes, and the Bay Area Food Bank. FROG also recently adopted the 21st Century Academy, a school in the Bayview/Hunters Point area of San Francisco. Employees helped to make a difference in the students' lives by participating in programs such as *Read Aloud in Schools Day*, an "E-mail Pals" program, and a school book drive.

end Notes

[1] California Statistical Abstract 2000. GDP: p. 234.

[2] Production of crude oil by PAD District and State, 1999, thousands of barrels. Energy Information Administration/ Petroleum Supply Annual 1999, Volume 1, Department of Energy. February 22, 2001, *http://www.eia.doe.gov/emeu/states/_states_pet.html.*

[3] Throughout this article, the terms “Other U.S.” and “the rest of the nation” exclude Twelfth District data.

[4] Source: Bureau of Labor Statistics, Nonfarm Payroll Employment.

[5] The entire nation added payroll jobs at an 11.6 percent rate over the comparable five-year period from December 1995 to December 2000. Bureau of Labor Statistics.

[6] Total residential population from Census Bureau, April 1, 2000, *http://www.census.gov.*

[7] Population from U.S. Census Bureau web site: Nevada ranked first; Arizona ranked second. Both are significantly higher than the average for all states. *http://www.census.gov.*

[8] The category "White Hispanic" describes people who selected "White" as their race and "Hispanic" as their ethnicity in the 1990 census.

[9] Net international immigration accounted for 38 percent of the Twelfth District’s net increase in population between 1990 and 1999, but only 28 percent for the rest of the nation. The District also experienced an outflow of 422,000 residents to the rest of the nation during the period, mainly as a result of a net domestic migration from California.

Initiatives

Electronic Payments

The Federal Reserve Bank of San Francisco is involved in numerous innovative initiatives to streamline the payments process. Many of these efforts leverage the existing Automated Clearing House (ACH) system in new ways:

EBIDS

Begun early in the year as a project to develop a prototype electronic bill presentment and payment service, the Electronic Billing Information Delivery Service (EBIDS) would expand the use of the ACH, using it to route and deliver billing and payment information to billers and their customers. The project involves enhancing the ACH network to deliver billing information and payment instructions to banks that can then post this information on their web sites as part of the bill payment services they offer to their customers. Although still in the concept stage, EBIDS will potentially add value to an already tried and trusted payments mechanism, and the project is now a joint venture with several other Reserve Banks.

Treasury Point of Sale

Treasury Point of Sale (TPOS) is an initiative begun in the Fall of 1999 to convert checks that certain government agencies receive at the point of sale to ACH payments. This project, also in pilot phase, could eventually involve as many as 50 government agencies. During 2000, the Veterans' Administration Canteen Service, the Patent and Trademark Office, the Bureau of Engraving and Printing, and the Government Services Administration (GSA) began to participate in the pilot.

Two external companies are involved in the process: RDM Corporation, which supplies the scanner necessary to read check data, and eFunds Corporation, which provides the back-end processing required to create the ACH file that is submitted to the Federal Reserve. A TPOS transaction works as follows: A purchaser writes a check to a participating agency for services received. Instead of the normal check transaction, however, the purchaser signs an agreement acknowledging the funds will be collected electronically via the ACH. (Once the transaction is complete, the check is stamped "void" and returned to the customer.) The check is scanned through the RDM scanner, with data transmitted to RDM Corporation and processed onward to eFunds, where the actual ACH debit file is created. The file is then processed through the ACH, and the appropriate accounts are debited and credited.

Processing cost savings are potentially significant. Various studies show that it costs approximately twice as much to process a check as it does to process an ACH transaction. The most significant savings involve the elimination of certain paper, transportation, and check encoding costs. Other advantages include the ability to retrieve an image of the check later on, should the agency have need, as well as an ability to decline checks from customers who have a documented history of writing checks with insufficient funds.

Simplified Giving

In 2000, the Bank launched the Simplified Giving Program as a pilot. This program encourages nonprofit organizations to offer direct payment as a method of collecting donations. Direct payment enables a nonprofit's donors to make contributions directly from their bank accounts to the nonprofit on a recurring basis. Anticipated benefits of this program are that the convenience of the payment method generally encourages more generous donations, and people who might otherwise donate on a one-time basis become sustained donors. Use of the program also will make the nonprofit's cash flow more predictable.

Direct Payment Joint Promotion

Begun as a collaboration between various Federal Reserve Banks, ACH Associations, financial institutions, and billers, the Direct Payment Joint Promotion initiative encourages direct, automated payment of bills from customer to vendor or service provider.

While our District's project operates only in Northern California at present, each year new billers have been added; there are now 18. In 2000, web technology was successfully utilized to allow customers to enroll on line at *www.directpaymentplan.com*.

The first such project began 12 years ago in Hawaii, and in 1995, Pacific Gas and Electric (PG&E) Company and Bank of America expressed interest in starting a similar project in California. Initially, four billers participated: PG&E, Pacific Bell, the East Bay Municipal Utility District, and Great Oaks Water Company of San Jose.

Of the billers currently involved in the project, only three had existing direct payment programs. In the first year of operation, PG&E saw sign-ups 26 percent higher than from its own program. Efficiencies in enrollment processing, moreover, are achieved with volume.

A significant advantage for customers who participate in the direct payment service is that they know exactly on which day the payment will leave their checking account, which helps them predict their cash flows better. Likewise, the participating billers enjoy greater predictability in the timing of their cash flows than they do when customers mail checks. In addition, the cost of processing ACH payments is much lower than that of check payments.

There are plans to expand the program throughout the Twelfth District, and an effort to develop a standardized, national program is being led by the Federal Reserve Bank of Cleveland.

Direct Payment®

Pacific Basin and Other International Activities

The Federal Reserve Bank of San Francisco is responsible for coordinating the supervision of all U.S. operations of 38 Foreign Banking Organizations (FBOs), including key institutions from Japan, Korea, Taiwan, Hong Kong, Philippines, Malaysia, India, and France, and examining 115 offices of the FBOs located within the District. In 2000, the Banking Supervision and Regulation (BS&R) Division continued to execute its robust international program, focusing on three primary areas: supervising FBOs, analyzing financial sector developments in key Asian and European countries, and providing technical assistance and training to Asian supervisory authorities.

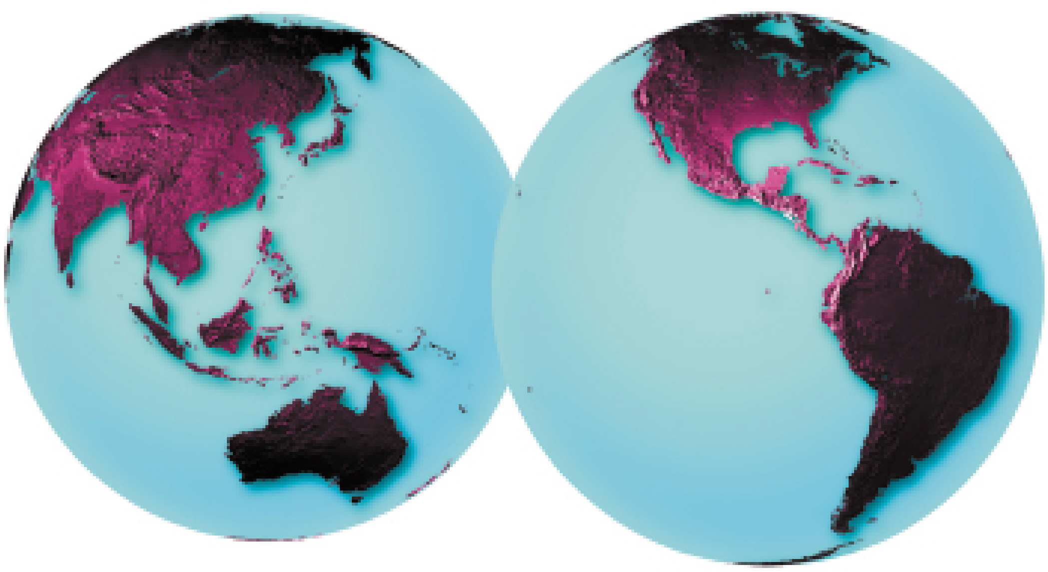
To strengthen FBO supervision, BS&R's Country Analysis Unit (CAU) works closely with foreign supervisors, meeting regularly to share information on supervisory standards and procedures. For instance, CAU initiated and hosted a System meeting with the Japanese Financial Supervisory Authority to discuss the condition of major Japanese banks operating in the U.S. and understand more about the changing Japanese bank supervision process. Information gleaned at this meeting was used to refine and update the supervisory strategy for Japanese FBOs. CAU analysts participate on fact-finding trips to key Asian countries and coordinate technical assistance and training programs for foreign supervisors.

An example of CAU's special analyses for 2000 includes a series of papers on Japan entitled, *A Look at Japan's Changing Financial Landscape: Implications for Japanese City Banks*. The series highlighted structural changes underway in Japan, analyzed how they affect the banking sector, and reviewed the supervisory implications. The papers stimulated a discussion within the Federal Reserve about emerging trends in Japan and our supervisory strategy for Japanese banks in 2001 and beyond. Other papers explored the aftermath of the Asian financial crisis, including *Foreign Bank Acquisitions in Asia*, which reviewed the efforts of major global banks and financial institutions to expand into Asia following the crisis, and *Changes in Bankruptcy Law in Indonesia and Thailand*, which reviewed bankruptcy code changes and their implications in these countries.

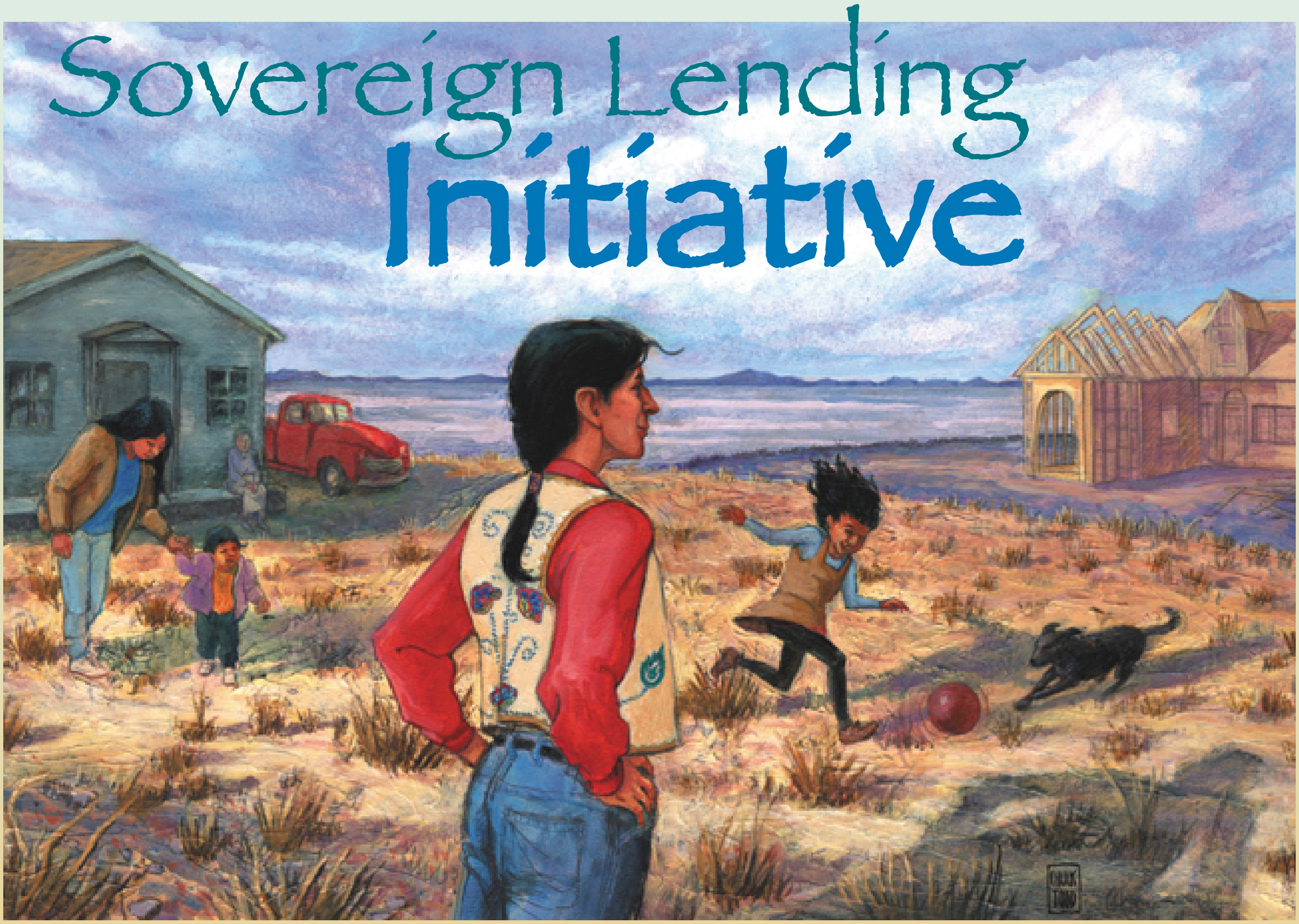
Pacific Basin Monetary and Economic Studies

In 2000, the Economic Research Department's Center for Pacific Basin Monetary and Economic Studies continued its mission of promoting research on relevant economic issues and enhancing cooperation among the region's policymaking institutions. Research studies were completed on a range of topics, including analyses of Japan's banking sector and regulatory policy, early warning indicators of currency crises, macroeconomic performance under different exchange rate regimes, and the impact of international capital flow controls. Center staff members also edited and arranged commercial publication of a volume of papers prepared by distinguished economists for the Center's conference on *Financial Crises in Emerging Markets* held in September 1999. Scheduled for publication by Cambridge University Press, the book is the third in a series of the Center's conferences that have been published by Cambridge Press.

Among the Center's other activities, it collaborated for a second consecutive year with the World Bank to organize a week-long training workshop for senior policymakers on the subject of "Managing Capital Flows" that was held in Bangkok, Thailand. The workshop sessions addressed the problems of managing capital flows and dealing with financial crises and contagion, and also addressed special topics, such as monitoring derivatives activity. The audience included more than 50 experienced policymakers from over 30 countries in Asia, Africa, and Eastern Europe. In addition to Center staff members, other speakers came from the World Bank, the OECD, the European Investment Bank, and Asian central banks. Center staff members also made presentations at various conferences in Asia, including programs organized by the Asian Development Bank Institute in Tokyo, the Australian National University and IMF in Canberra, the Reserve Bank of Australia, and the Hong Kong Monetary Authority.



Sovereign Lending Initiative



In 1998, the Federal Reserve Bank of San Francisco's Community Affairs unit embarked on an initiative to increase access to credit in Indian Country. The work began with seven Sovereign Lending workshops, at which the greater tribal and banking community discussed the barriers and solutions to lending. Sovereign Lending task forces then were formed out of these workshops.

The task forces, with representatives from different tribes, financial institutions, government agencies, and community-based organizations, held meetings at over 50 Indian reservations throughout Washington, Oregon, Idaho, and Utah. At these meetings, participants learned about each tribe's economic development plans, identified needed banking services, and collaborated on joint projects.

The initiative is necessary because nearly half of all homes located in Indian Country are overcrowded and have serious physical deficiencies; it is estimated that over 200,000 housing units are needed immediately. Compounding the housing crisis are high poverty and unemployment rates. Without housing opportunities, savings incentives and overall capital formation are stifled. Without access to the traditional mortgage market, those who seek homeownership may end up with high loan interest rates and fees, normally much higher than those from a traditional mortgage lender.

The task forces identified and then worked to ameliorate five primary barriers to lending in Indian Country:

Tribal Lending Laws

A lack of guidelines for procedures such as evictions and foreclosures presents an unknown situation for lenders, which is perceived as a risk. A number of tribes have now used their sovereignty to adopt laws promoting real estate and commercial lending.

Remoteness

The remote location of many Indian reservations is a challenge for lenders. Several tribes decided to offer direct deposit service, enabling their employees to accrue interest on funds and access cash from ATMs or via point-of-sale service at local stores.

Land Status

Land ownership on Indian reservations can be complex, but lending products exist for different ownership structures. The 184 Loan Guarantee Program of the Department of Housing and Urban Development is designed for use on tribal land. In addition, several lenders have been working on special housing programs with individual tribes, and one task force is exploring how to improve access to state housing programs.

Communication

Traditionally, there have been limited opportunities for communication between many tribes and the finance community. In response, directories of bank and tribal personnel to contact on financing matters have been developed. Also, community-based organizations that have not previously offered affordable housing technical assistance have participated in task force meetings.

Borrower Characteristics

Widespread unemployment, nontraditional forms of income, lack of assets, and low education levels are issues that task force members have begun to address by launching financial literacy programs. Also, banks began to accept alternative forms of income verification and hold first-time homebuyer seminars, and two task forces are lobbying for legislation to allow residents access to Individual Development Accounts, designed to help people save for their first home, education, or to start a new business.

The Community Affairs unit has held meetings at a total of 49 Indian reservations, made presentations at numerous conferences, spearheaded six Housing Ordinance Workshops, and supported many efforts by financial institutions and intertribal organi-zations. Several tribes now have adopted new laws to allow tribal members access to mortgage loans. In 2001, the unit will hold five Sovereign Lending workshops in the states of California, Nevada, and Arizona, and hopes to experience similar success to that in the Northwest.

Adapted from an article by Craig Nolte: "Sovereign Lending: Bringing Housing to Indian Country," in the May 2000 issue of Community Investments, *a publication of the Community Affairs unit of the Federal Reserve Bank of San Francisco.*

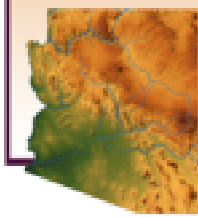
State by State Facts (all data as of December 31, 2000)

ALASKA

POPULATION: 626,932
LABOR FORCE: 320,457
UNEMPLOYMENT RATE: 6.0 %
PER CAPITA PERSONAL INCOME: $ 28,577
GROSS STATE PRODUCT: $ 24,236,000,000*
SQUARE MILES: 587,875

ARIZONA

POPULATION: 5,130,632
LABOR FORCE: 2,404,547
UNEMPLOYMENT RATE: 3.7 %
PER CAPITA PERSONAL INCOME: $ 25,189
GROSS STATE PRODUCT: $ 133,801,000,000*
SQUARE MILES: 114,006



CALIFORNIA

POPULATION: 33,871,648
LABOR FORCE: 17,256,202
UNEMPLOYMENT RATE: 4.6 %
PER CAPITA PERSONAL INCOME: $ 29,910
GROSS STATE PRODUCT: $ 1,118,945,000,000*
SQUARE MILES: 158,647

HAWAII

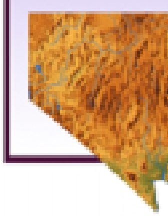
POPULATION: 1,211,537
LABOR FORCE: 600,348
UNEMPLOYMENT RATE: 4.3 %
PER CAPITA PERSONAL INCOME: $ 27,544
GROSS STATE PRODUCT: $ 39,712,000,000*
SQUARE MILES: 6,459

IDAHO

POPULATION: 1,293,593
LABOR FORCE: 673,890
UNEMPLOYMENT RATE: 4.9 %
PER CAPITA PERSONAL INCOME: $ 22,835
GROSS STATE PRODUCT: $ 30,936,000,000*
SQUARE MILES: 83,574

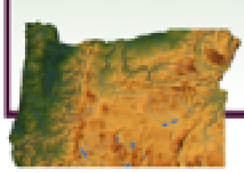
NEVADA

POPULATION: 1,998,257
LABOR FORCE: 1,005,350
UNEMPLOYMENT RATE: 4.5 %
PER CAPITA PERSONAL INCOME: $ 31,022
GROSS STATE PRODUCT: $ 63,044,000,000*
SQUARE MILES: 110,467



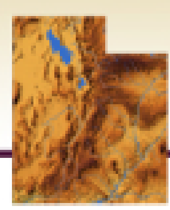
OREGON

POPULATION: 3,421,399
LABOR FORCE: 1,788,240
UNEMPLOYMENT RATE: 4.2 %
PER CAPITA PERSONAL INCOME: $ 27,023
GROSS STATE PRODUCT: $ 104,771,000,000*
SQUARE MILES: 97,052



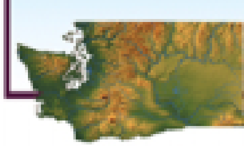
UTAH

POPULATION: 2,233,169
LABOR FORCE: 1,124,227
UNEMPLOYMENT RATE: 3.3 %
PER CAPITA PERSONAL INCOME: $ 23,288
GROSS STATE PRODUCT: $ 59,624,000,000*
SQUARE MILES: 84,904



WASHINGTON

POPULATION: 5,894,121
LABOR FORCE: 3,093,679
UNEMPLOYMENT RATE: 4.9 %
PER CAPITA PERSONAL INCOME: $ 30,392
GROSS STATE PRODUCT: $ 192,864,000,000*
SQUARE MILES: 68,127



* = rounded

Alaska

Inside Passage

Midnight Sun

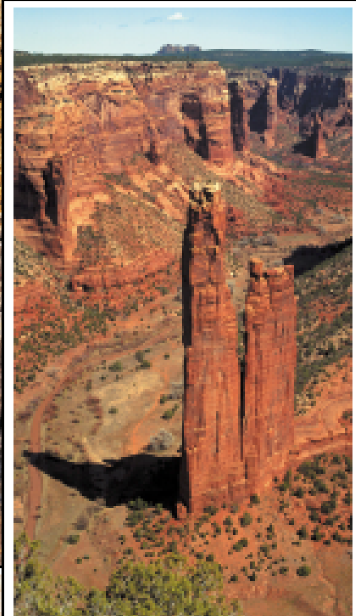
Katmai Peninsula

The Alaska Range

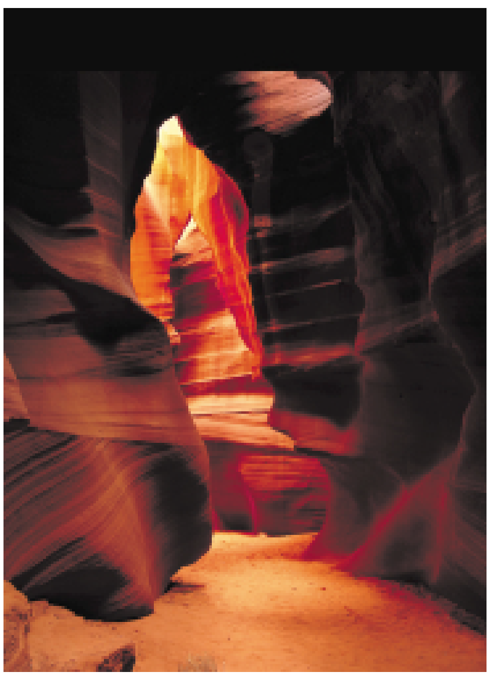
Glacier Bay

Arizona

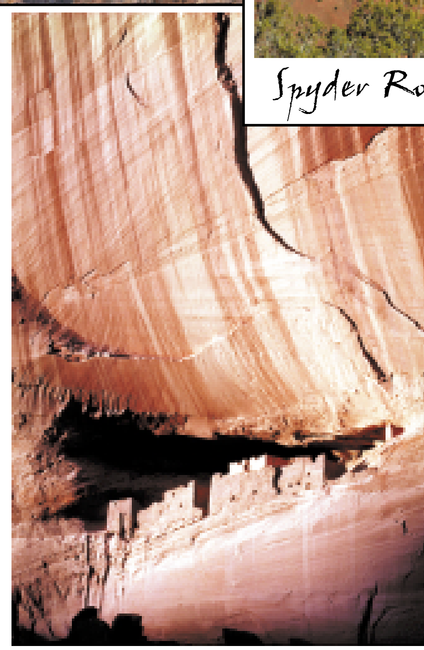
Grand Canyon



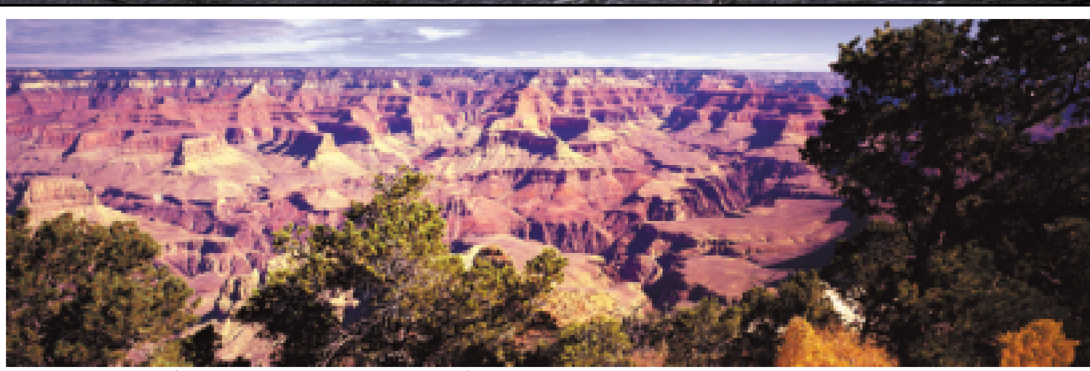
Spyder Rock



Antelope Canyon



White House Ruin



Grandview Point, Grand Canyon

California

Yosemite Falls, Yosemite National Park

Golden Gate Bridge, San Francisco

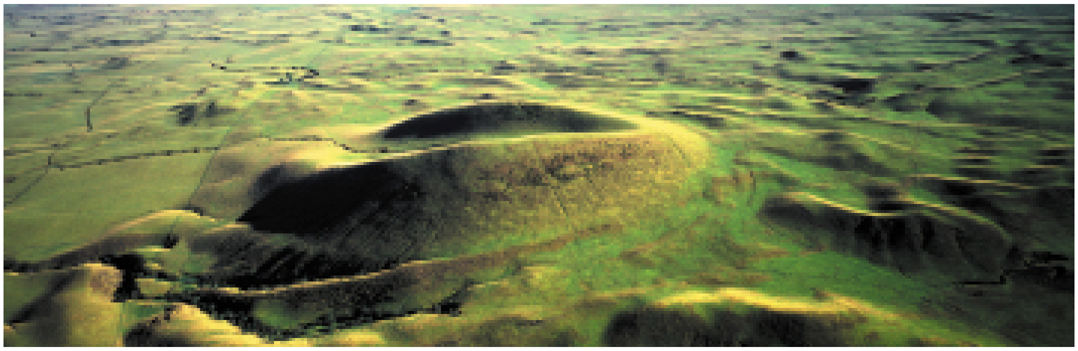
High Sierra Mountains

Big Sur coastline

Ghost town, Bodie State Park

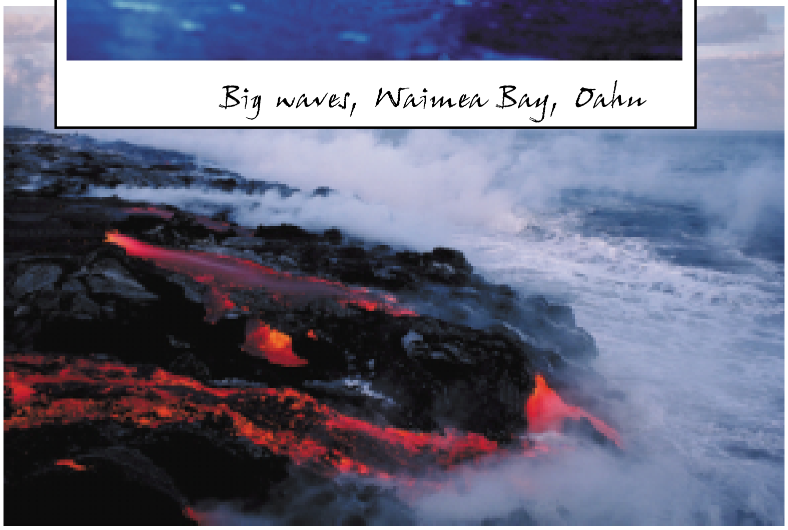
Hawaii

Sunset, Maui

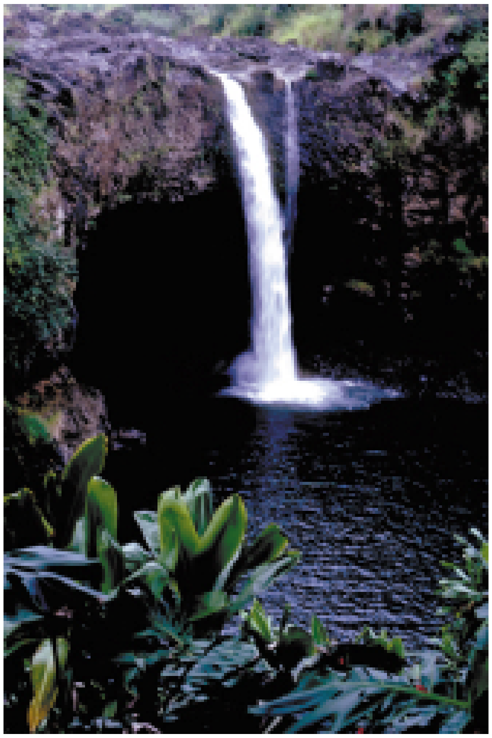


Cinder cone, Mauna Kea, Big Island

Big waves, Waimea Bay, Oahu



Lava meets the sea



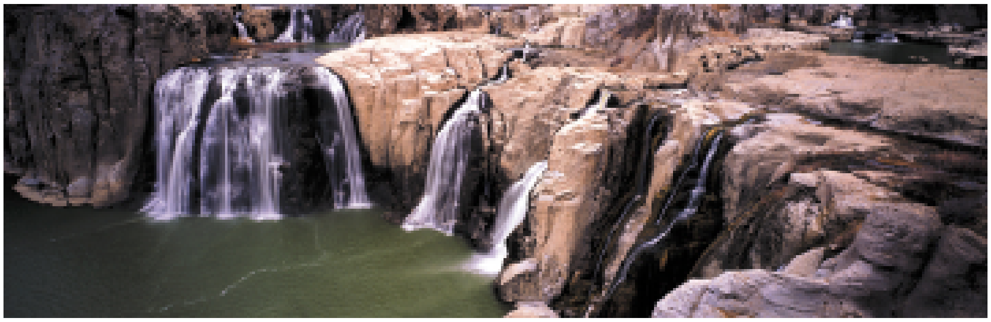
Waterfall, Big Island

Idaho

Redfish Lake, Sawtooth National Recreation Area

Salmon River

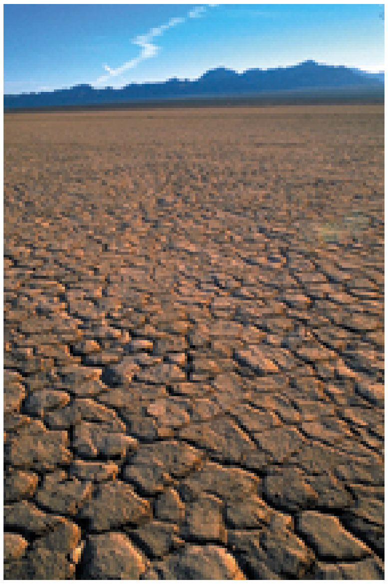
Winter scene



Shoshone Falls of the Snake River

Nevada


High Desert


Dry lake bed

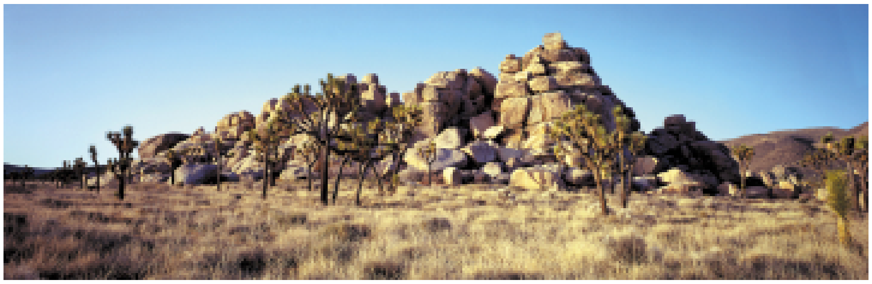

Pasture near east slope of Sierra Nevada Mountains


Sunset over Battle Mountain

Oregon

Wizard Island, Crater Lake National Park

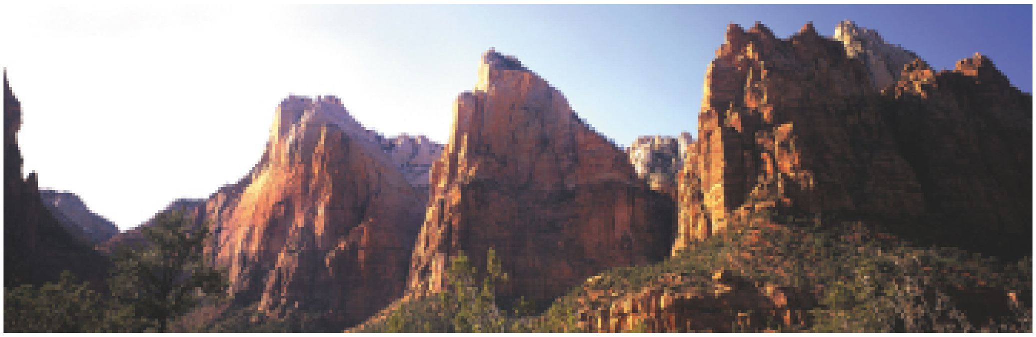
Columbia River gorge



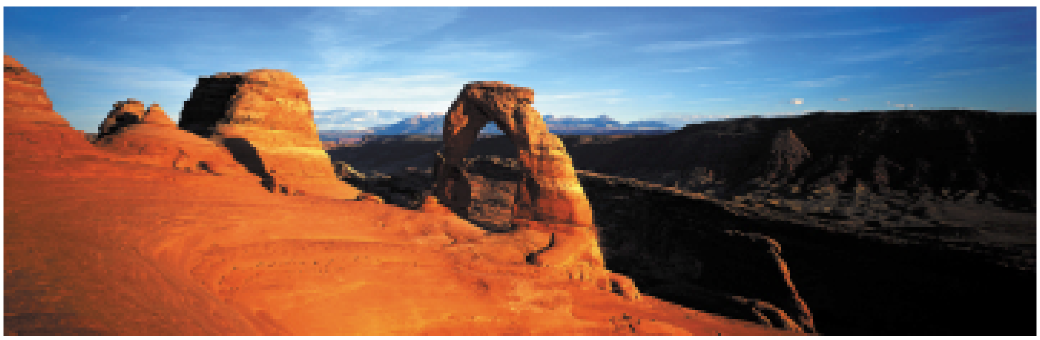
Ecola State Park

Yaquina Head lighthouse

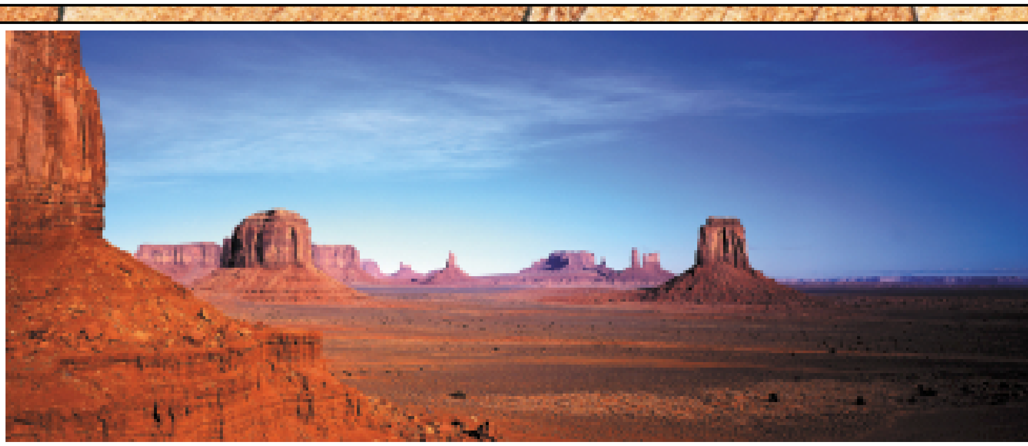
Utah



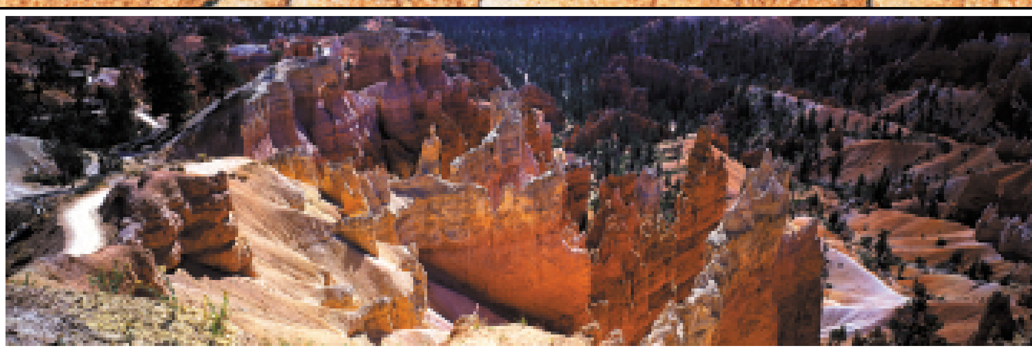
Court of the Patriarchs, Zion National Park



Delicate Arch, Arches National Park



Monument Valley Navajo Tribal Park



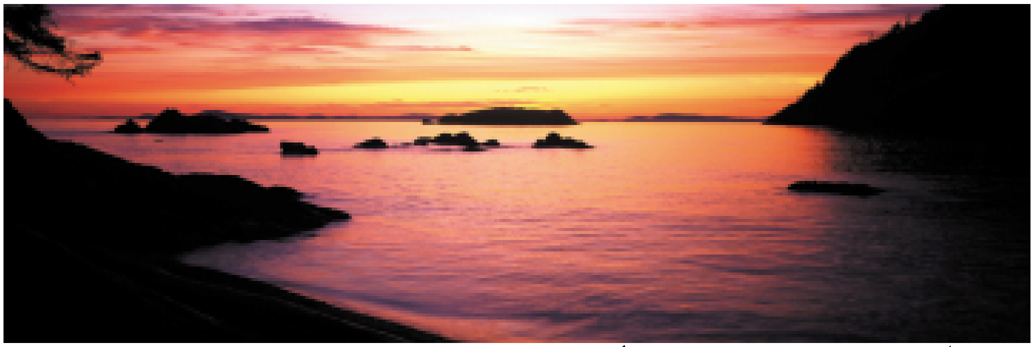
Inspiration Point, Bryce Canyon National Park

Washington

Picture Lake and Mt. Shuksan, North Cascades National Park

Sunrise Park, Mount Rainier National Park

North Head lighthouse



Bowman Bay, Deception Pass State Park

Summary of Operations

	Volume (in thousands)		
	1998	1999	2000
Custody Services			
Cash Services			
Currency notes paid into circulation	4,739,673	5,369,630	5,490,977
Food stamp coupons processed	483,942	367,350	284,971
Securities Services			
Other Treasury original issues	76	63	41
Book-entry securities processed	673	527	141
Payments Services			
Check Services			
Commercial checks collected	2,312,860	2,312,940	2,425,359
Government checks processed	52,103	46,034	38,809
Return items processed	34,591	33,849	33,729
Electronic Payments Services			
Wire transfers processed	26,622	27,088	27,743
Automated Clearing House transactions processed	499,527	574,872	640,946
Discounts and Advances			
Total discounts and transactions*	463	647	969
Number of financial institutions accommodated*	77	130	130

* Whole number (not in thousands)

Executive Committee

From left (standing):

Susan A. Sutherland, Senior Vice President
Mark Mullinix, Executive Vice President
Gordon R. G. Werkema, Executive Vice President
Jack H. Beebe, Senior Vice President and Director of Research

From left (seated):

Terry S. Schwakopf, Executive Vice President
Robert T. Parry, President
John F. Moore, First Vice President

Highlights of Operations

Following the extensive preparations undertaken for Y2K, the Bank experienced a very successful century date change weekend and subsequent "Leap Day" on February 29. Prior to the rollover, Bank staff played a critical role in ensuring that all of our customers had tested their interfaces with the Bank, as well as making our own internal applications Y2K-compliant.

In May, the operations and administrative areas of the Bank were organized along functional lines, whereby staff within the same function in the five District offices now all report to the same senior officer, as opposed to the officer in charge of their Branch. This organizational change was undertaken to ensure that we are positioned to build on our strong performance over the last several years. Specifically, we sought to improve customer service and customer care, reduce our cost structure, and streamline decision making. Significant benefits from the reorganization were apparent by the third quarter, including reduced operating costs and faster business decisions.

Financial Services

The Bank experienced record increases in cash receipts volume in 2000, partly on account of the anticipated flow-back of Y2K-related currency early in the year. Throughout the rest of the year, however, receipts continued at a record pace, possibly signaling a shift in depository institutions' cash management practices. At the same time, Automated Clearing House (ACH) originations grew by 6.6 percent to comprise nearly 10 percent of the System's total ACH volume. Particularly noteworthy was the fact that the Bank exceeded its local net revenue target for priced services by $1 million and its target in Check Services alone by $875 thousand, increasing its Check net revenue contribution by more than $3.8 million over 1999's level. These accomplishments were the result of tight cost control and stepped-up efforts to market check services.

- In March, the Board of Governors approved the final design and project budget for the Phoenix Processing Center, which will improve the quality of cash services available to the Arizona market. By year-end, construction was well underway, and the building is on schedule to open in September 2001.

- As Enterprise-Wide Adjustments (EWA) project manager for the Federal Reserve System, the Bank successfully converted 17 Federal Reserve offices to the EWA platform and made significant enhancements to the EWA software, expanding its functionality and strengthening its contingency capabilities. EWA is a component of Check Modernization, a project designed to create an efficient check processing environment that includes standard, centrally managed platforms for item processing, check adjustments, and image services, as well as web-based delivery of check services. The Bank also assumed responsibility on behalf of the System for supporting and enhancing the software that serves as the core for the standardized check processing platform, or Check Standardization, another component of the Check Modernization project.

- As part of a combined Treasury and Federal Reserve initiative to reduce the cost of fiscal operations and streamline the provision of services to customers, the Bank transferred to other Reserve Banks its long-standing Fiscal Agency functions—Treasury Tax and Loan, Treasury Auction, and Treasury Direct—while maintaining timely and orderly transactions and high quality customer service during these consolidations.

The Bank continued to work with the Treasury's Financial Management Service to support the Treasury Offset Program (TOP). Since its inception, TOP has recovered through offset a total of $5.65 billion that was returned to creditor federal agencies.

Economic Research

The Bank continued to pursue its long-term strategy of focusing resources on maintaining high standards of research in monetary policy and macroeconomics, banking, regulation, and regional studies, as well as international economics, with a special emphasis on the Pacific Basin.

- Research on U.S. monetary policy issues included several papers on various aspects of policy rules—such as an assessment of nominal income rules under uncertainty, rules as a reflection of policymakers' preferences, and the role of expectations in the instability of rules—as well as an exploration of the policy implications of a shift in trend productivity.

- Articles on banking and regulation included studies of the issues surrounding the separation of banking and commerce, the benefits of expanded bank powers, and a study of the forecast performance of the implied correlations in exchange rate currency options. Staff also looked at regional and labor market issues, examining the cyclical and demographic influences on California's income distribution, as well as income and wage inequality in the U.S., and union effects on health insurance provision.

- Research in the international area focused mainly on Pacific Basin issues and included such topics as Japan's banking sector and regulatory policy, aspects of anticipating currency crises, macroeconomic performance under different exchange rate regimes, the continued feasibility of "soft" currency pegging arrangements, and the impact of capital controls.

- The Bank organized two conferences that addressed macro policy issues and were co-hosted with the Stanford Institute of Economic Policy Research at Stanford University. One conference focused on whether the U.S. economy has undergone a structural change and what the implications are for monetary policy, and the second offered different explanations of the recent behavior of the stock market.

- Nineteen research articles were accepted for publication, eleven of which were accepted in refereed journals. In addition, two volumes containing papers from conferences sponsored by the Bank were published or were in press. The requirement for publishing in the FRBSF Economic Review was reduced in order to increase the output of papers destined for refereed journals; in the process, the publication was revamped to focus on policy-related articles and updates on staff research, and the number of issues was reduced from three to one.

- The Bank studied the impact of rising energy prices on the Twelfth District economy, with a particular focus on the severe problems in the California electricity market.

Banking Supervision and Regulation

To provide effective oversight in the face of sweeping changes taking place in the financial services industry, the Bank continued to focus on enhancing its capacity to identify and address emerging supervisory risks.

- The Bank was successful in meeting the demands that resulted from the new powers granted under the Gramm-Leach-Bliley Act, which appointed the Federal Reserve as the "umbrella" supervisor of financial holding companies. The Bank realigned its resources and quickly adjusted to the new supervisory responsibilities created by the financial modernization legislation. The Charles Schwab Corporation, based in San Francisco, became one of the first in the country to apply for financial holding company status under the Act, resulting in the development of an innovative approach to assess enterprise-wide risk in financial holding companies where securities is the primary business.

The Bank needed tools to monitor the risk associated with the high concentrations of commercial real estate loans found in the portfolios of Twelfth District institutions. Accordingly, a pilot commercial real estate market monitoring program was developed for select metropolitan areas to determine whether such a program would enhance the Bank's ability to assess credit risk. Successful completion of the pilot encouraged expansion of the program to include all the major markets in the District.

In order to address the impact of economic developments in Asia on domestic and foreign banking organizations, the Bank continued to expand its international program by analyzing financial sector developments in key Asian countries, and providing technical assistance and training to Asian supervisory authorities. In addition, the Bank broadened its supervisory contacts and knowledge base in Europe.

- In the Community Affairs area, the Bank continued to encourage community development throughout the District by providing educational and partnership opportunities for financial institutions. As well as focusing on the Sovereign Lending initiative (see article on page 17), the Bank held quarterly Community Reinvestment Act (CRA) officer roundtables in nine Twelfth District cities, with attendance averaging over 200 financial institution participants per quarter. The Bank also had several successful outreach efforts, coordinating two meetings of the Association of Reinvestment Consortia for Housing in San Francisco and in Boston. The Bank also coordinated and co-sponsored, with the other bank regulatory agencies, the 2000 Community Reinvestment Conference in San Francisco.

Check Modernization

Check Modernization is comprised of four major projects: Check Standardization (CS), Enterprise-Wide Adjustments (EWA), Image Services System (ISS), and Electronic Access and Delivery (EA&D). Check Modernization will create an efficient check processing environment that includes standard, centrally managed platforms for item processing, check adjustments and image services, as well as web-based delivery of check services.

Branch Managers

From left:

Andrea P. Wolcott, Group Vice President, Salt Lake City
Mark Mullinix, Executive Vice President, Los Angeles
Gordon R. G. Werkema, Executive Vice President, Seattle

Not pictured: Raymond H. Laurence, Senior Vice President, Portland

Bank Officers and Principals

as of December 31, 2000

Executive Committee

Robert T. Parry
President and Chief Executive Officer

John F. Moore
First Vice President and Chief Operating Officer

Jack H. Beebe
Senior Vice President and Director of Research

Mark Mullinix
Executive Vice President, Cash Services and District Finance and Administration

Terry S. Schwakopf
Executive Vice President, Banking Supervision and Regulation and District Public Information

Susan A. Sutherland
Senior Vice President, Human Resources, Legal, Statistics, Structure, Fiscal, and Electronic Payments and Product Support

Gordon R. G. Werkema
Executive Vice President, Information and Technology Services, Checks, and Business Development; and First Vice President-Elect, Federal Reserve Bank of Chicago

Officers and Principals of the San Francisco Office

Michael J. Murray
Senior Vice President

D. Kerry Webb
Senior Vice President

Jet Auer de Saram
Group Vice President and General Counsel

John S. Hsiao
Group Vice President

Donald R. Lieb
Group Vice President

John H. Parrish
Group Vice President and General Auditor

Deborah S. Smyth
Group Vice President

Michael J. Stan
Group Vice President

David W. Walker
Group Vice President

Patricia A.Welch
Group Vice President

Bonnie R. Allen
Vice President

James M. Barnes
Vice President and Managing Director

Teresa Curran
Vice President and Managing Director

Lee C. Dwyer
Vice President

Fred T. Furlong
Vice President

Reuven Glick
Vice President

Eliot E. Giuili
Vice President

Todd A. Glissman
Vice President

Richard B. Hornsby
Vice President

John P. Judd
Vice President and Associate Director

Ann Marie Kohlligian
Vice President and Managing Director

Elizabeth R. Masten
Vice President and Secretary of the Board

Ronald E. Mitchell
Vice President

Joy Hoffmann Molloy
Vice President

as of December 31, 2000

Officers and Principals Bank

Robert D. Mulford
Vice President

Darren S. Post
Vice President

Thomas A. Ballantyne
Director

Barbara A. Bennett
Director

Kenneth R. Binning
Director

Richard K. Cabral
Director

James J. Callahan
Director

Lisa A. Damon
Director

Alice Farrell
Director

Louis “Skip” George
Director

Ellen M. Hamilton
Director

Beverley-Ann Hawkins
Director

Jackie C. Hicks
Director

Peter K.C. Hsieh
Director

Craig B. Knudsen
Director
(On loan to the Board)

Mark E. Levonian
Director

Ellsworth E. Lund
Director

David E. Reiser
Director

Sharon Ruth
Director and Associate General Counsel

Philip M. Ryan
Director

Daniel K. Shaw
Director

James J. Tenge
Director

Roxana R. Tsougarakis
Director

Elizabeth L. Wood
Director

Mary E. Wujek
Director

Glenn D. Rudebusch
Senior Research Advisor

Mark M. Spiegel
Research Advisor

Bharat Trehan
Research Advisor

Jose Alonso
Principal

Jon D. Greenlee
Principal

Michael E. Johnson
Principal

Gopa Kumar
Principal

Lincoln R. Morita
Principal

Sallie H. Weissinger
Principal

Branch Officers and Principals

as of December 31, 2000

Officers and Principals of the Los Angeles Branch

Mark Mullinix
Executive Vice President

Roger W. Replogle
Group Vice President

Robert G. Wiley
Group Vice President

Marla E. Borowski
Vice President

Robin A. Rockwood
Vice President

Sean Rodriguez
Vice President

Deborah Awai
Director

Anthony P. Dazzo
Director

Warren Howard
Director

Robert C. Johnson
Director

Dale L. Vaughan
Director

Robert Zavala, Jr.
Director

Richard J. Shershenovich
Principal

Officers of the Portland Branch

Raymond H. Laurence
Senior Vice President

Mary E. Lee
Director

Officers of the Salt Lake City Branch

Andrea P. Wolcott
Group Vice President

Jed W. Bodily
Director

Mark D. DeLio
Director

Officers of the Seattle Branch

Gordon R. G. Werkema
Executive Vice President

Mark A. Gould
Vice President

Lynn M. Jorgensen
Director

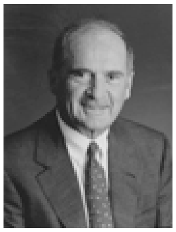
Jimmy F. Kamada
Director

Directors

Federal Reserve Bank of San Francisco

Chairman of the Board and Federal Reserve Agent
Nelson C. Rising
Chairman and CEO
Catellus Development Corporation
San Francisco, California

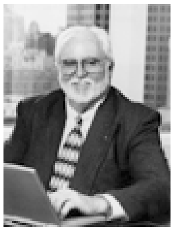
Richard C. Hartnack
Vice Chairman
Union Bank of California
Los Angeles, California



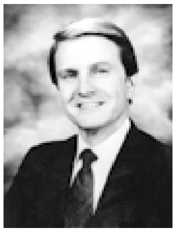
Deputy Chairman
George M. Scalise
President
Semiconductor Industry Association
San Jose, California

Warren K. K. Luke
Chairman, President and CEO
Hawaii National Bank
Honolulu, Hawaii

Robert S. Attiyeh
Senior Vice President and
CFO (Retired)
Consultant
Amgen, Inc.
Thousand Oaks, California



Jack McNally
Business Manager
International Brotherhood of
Electrical Workers
Local Union 1245
Walnut Creek, California



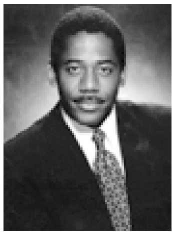
E. Lynn Caswell
Chairman
EarthOne Capital Group and
EarthOne Financial.com
Laguna Hills, California

Barbara L. Wilson
Idaho and Regional
Vice President
Qwest
Boise, Idaho

Sheila D. Harris
Consultant
Harris Consulting
Litchfield Park, Arizona

Federal Advisory Council Member
Linnet F. Deily
Vice Chairman
Office of the President
The Charles Schwab Corporation
San Francisco, California

Directors
Los Angeles Branch



Chairman of the Board
William D. Jones
Chairman, President and CEO
CityLink Investment Corporation
San Diego, California

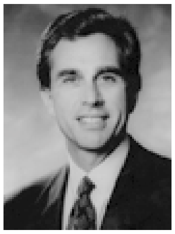
Linda Griego
Managing Partner
Engine Co. No. 28
Los Angeles, California

Lori R. Gay
President
Los Angeles Neighborhood
Housing Services, Inc.
Los Angeles, California

Lonnie Kane
President
Karen Kane, Inc.
Los Angeles, California

John H. Gleason
Executive Vice President
Del Webb Corporation
Phoenix, Arizona

D. Linn Wiley
President and CEO
Citizens Business Bank
Ontario, California



Russell Goldsmith
Chairman and CEO
City National Bank
Beverly Hills, California

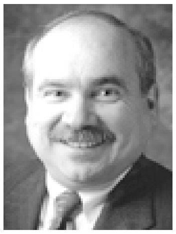
Directors

Portland Branch

Chairman of the Board
Nancy Wilgenbusch
President
Marylhurst University
Marylhurst, Oregon

Karla S. Chambers
Vice President and
Co-owner
Stahlbush Island Farms, Inc.
Corvallis, Oregon

Phyllis A. Bell
President
Oregon Coast Aquarium
Newport, Oregon



George Passadore
President, Oregon
Wells Fargo Bank
Portland, Oregon

Patrick Borunda
Principal
The Navigator Group
Yacolt, Washington

Guy L. Williams
President and CEO
Security Bank
Coos Bay, Oregon

Martin Brantley
President and General Manager
(Retired)
Oregon's 12-KPTV
Portland, Oregon

Directors

Salt Lake City Branch

Chairman of the Board
H. Roger Boyer
Chairman
The Boyer Company
Salt Lake City, Utah

Curtis D. Harris
Chairman, President and CEO
Barnes Banking Company
Kaysville, Utah

Gary L. Crocker
Chairman
ARUP Laboratories
Salt Lake City, Utah

J. Pat McMurray
President, Idaho Region
Wells Fargo Bank
Boise, Idaho

Maria Garciaz
Executive Director
Salt Lake Neighborhood
Housing Services, Inc.
Salt Lake City, Utah

Peggy A. Stock
President
Westminster College
Salt Lake City, Utah

William C. Glynn
President
Intermountain Industries, Inc.
Boise, Idaho

Directors
Seattle Branch

Chairman of the Board
Richard R. Sonstelie
Chairman of the Board
(Retired)
Puget Sound Energy, Inc.
Bellevue, Washington

Boyd E. Givan
Senior Vice President and CFO
(Retired)
The Boeing Company
Seattle, Washington

James C. Hawkanson
Managing Director and
CEO
The Commerce Bank of
Washington, N.A.
Seattle, Washington

Betsy Lawer
Vice Chair and COO
First National Bank of Anchorage
Anchorage, Alaska

Mary E. Pugh
President
Pugh Capital Management, Inc.
Seattle, Washington

Helen M. Rockey
President and CEO
(Retired)
Just for Feet, Inc.
Seattle, Washington

Peter H. Van Oppen
Chairman and CEO
Advanced Digital Information
Corporation
Redmond, Washington

2001 Advisory Council

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Walter F. Payne, Jr.
President Emeritus
Blue Diamond Growers
Sacramento, California

Vice Chairman
Don M. “Duff” Willey
Chief Executive Officer
The Utah Auto Collection
Salt Lake City, Utah

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Vice President,
Business Development
Proflowers.com
La Jolla, California

Thomas E. Cleveland
Chairman and CEO
Access Business Finance
Bellevue, Washington

Paula R. Collins
Chief Executive Officer
WDG Ventures, Inc.
San Francisco, California

Paul Ecke, III
Chairman and CEO
Paul Ecke Ranch
Encinitas, California

Ed P. Mayne
President
Utah AFL-CIO
West Valley City, Utah

Laura E. Naumes
Vice President
Naumes, Inc.
Medford, Oregon

Lawrence S. Okinaga
Partner
Carlsmith Ball
Honolulu, Hawaii

Bob L. Vice
President
BLV, Agribusiness Consultants
Fallbrook, California

Richard S. Walden
Chairman, President, and CEO
Farmers Investment Company
Sahuarita, Arizona

Denice A. Young, CPA
President
Young Real Estate Group
Torrance, California

December 31, 2000

To: PricewaterhouseCoopers LLP

The management of the Federal Reserve Bank of San Francisco (FRB-SF) 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 (the "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 FRB-SF 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 FRB-SF 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, the management of the FRB-SF believes that the FRB-SF maintained an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements.

Federal Reserve Bank of San Francisco

by
Robert T. Parry
President

by
John F. Moore
First Vice President

PricewaterhouseCoopers

Report of Independent Accountants

To the Board of Directors of the
Federal Reserve Bank of San Francisco

We have examined management's assertion that the Federal Reserve Bank of San Francisco ("FRB San Francisco") 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 FRB San Francisco 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
San Francisco, California

PricewaterhouseCoopers

Report of Independent Accountants

To the Board of Governors of The Federal Reserve System
and the Board of Directors of The Federal Reserve Bank of San Francisco

We have audited the accompanying statements of condition of The Federal Reserve Bank of San Francisco (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 auditing standards generally accepted in the United States. 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.

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
San Francisco, California

Statements of Condition

(in millions)

	As of December 31, 2000	1999
Assets		
Gold certificates	$ 1,162	$ 1,279
Special drawing rights certificates	234	692
Coin	155	30
Items in process of collection	1,727	1,581
Loans to depository institutions	23	12
U.S. government and federal agency securities, net	56,511	52,028
Investments denominated in foreign currencies	1,609	2,635
Accrued interest receivable	658	524
Interdistrict settlement account	—	13,071
Bank premises and equipment, net	222	221
Other assets	40	36
Total assets	$ 62,341	$ 72,109
Liabilities and Capital		
Liabilities:		
Federal Reserve notes outstanding, net	$ 55,264	$ 66,641
Deposits:		
Depository institutions	2,632	2,263
Other deposits	6	8
Deferred credit items	1,394	1,419
Interest on Federal Reserve notes due U.S. Treasury	133	371
Interdistrict settlement account	1,241	—
Accrued benefit costs	69	70
Other liabilities	18	17
Total liabilities	$ 60,757	$ 70,789
Capital:		
Capital paid-in	$ 792	$ 660
Surplus	792	660
Total capital	1,584	1,320
Total liabilities and capital	$ 62,341	$ 72,109

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

Statements of Income

(in millions)

	For the years ended December 31, 2000	1999
Interest income:		
Interest on U. S. government and federal agency securities	$ 3,412	$ 3,080
Interest on investments denominated in foreign currencies	28	37
Interest on loans to depository institutions	1	1
Total interest income	3,441	3,118
Other operating income (loss):		
Income from services	92	86
Reimbursable services to government agencies	25	30
Foreign currency losses, net	(145)	(82)
U.S. government securities losses, net	(9)	(2)
Other income	8	8
Total other operating income (loss)	(29)	40
Operating expenses:		
Salaries and other benefits	168	165
Occupancy expense	16	16
Equipment expense	21	22
Assessments by Board of Governors	68	85
Other expenses	91	83
Total operating expenses	364	371
Net income prior to distribution	$ 3,048	$ 2,787
Distribution of net income:		
Dividends paid to member banks	$ 44	$ 51
Transferred to (from) surplus	517	(312)
Payments to U.S. Treasury as interest on Federal Reserve notes	2,487	3,048
Total distribution	$ 3,048	$ 2,787

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

Statements of Changes in Capital

For the Years Ended December 31, 2000 and December 31, 1999
(in millions)

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1999 (19 million shares)	$ 972	$ 972	$ 1,944
Net income transferred to surplus	—	(312)	(312)
Net change in capital stock redeemed (6 million shares)	(312)	—	(312)
Balance at December 31, 1999 (13 million shares)	$ 660	$ 660	$ 1,320
Net income transferred to surplus	—	517	517
Surplus transfer to the U.S. Treasury	—	(385)	(385)
Net change in capital stock issued (3 million shares)	$ 132	$ —	$ 132
Balance at December 31, 2000 (16 million shares)	$ 792	$ 792	$ 1,584

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

Notes to Financial Statements

1. Organization

The Federal Reserve Bank of San Francisco ("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 Los Angeles, California, Portland, Oregon, Salt Lake City, Utah, and Seattle, Washington, serve the Twelfth Federal Reserve District, which includes Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, Washington, and the commonwealths or territories of American Samoa, Guam, and the Northern Mariana Islands. 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 Clearing House 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.

Notes to Financial Statements

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.

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.

Notes to Financial Statements

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.

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.

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.

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

Notes to Financial Statements

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 evaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks.

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 two to fifty 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.

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 Clearing House operations, and allocations of shared expenses. The cumulative net amount due to or from other Reserve Banks is reported as the "Interdistrict settlement account."

Notes to Financial Statements

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 $22,001 million, and $20,956 million at December 31, 2000 and 1999, respectively.

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% 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% 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.

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.

Notes to Financial Statements

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. Federal Reserve Bank of San Francisco transferred $385 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.

Income and Costs related to Treasury Services

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."

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 10.899% and 10.752% 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	$ 14	$ 19
U.S. government:		
Bills	19,481	18,979
Notes	26,177	23,489
Bonds	10,112	8,922
Total par value	55,784	51,409
Unamortized premiums	1,061	978
Unaccreted discounts	(334)	(359)
Total allocated to Bank	$ 56,511	$ 52,028

Notes to Financial Statements

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	$ 1,967	$ -	$ 1,967
16 days to 90 days	11,876	-	11,876
91 days to 1 year	13,682	-	13,682
Over 1 year to 5 years	14,473	14	14,487
Over 5 years to 10 years	6,045	-	6,045
Over 10 years	7,727	-	7,727
Total	$ 55,770	$ 14	$ 55,784

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 $2,301 million and $4,213 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 10.270% and 16.324% at December 31, 2000 and 1999, respectively.

Notes to Financial Statements

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	$ 476	$ 707
Government debt instruments including agreements to resell	282	414
Japanese Yen:		
Foreign currency deposits	282	53
Government debt instruments including agreements to resell	564	1,453
Accrued interest	$ 5	$ 8
Total	$ 1,609	$ 2,635

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):

Within 1 year	$ 1,510
Over 1 year to 5 years	43
Over 5 years to 10 years	44
Over 10 years	12
Total	$ 1,609

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.

Notes to Financial Statements

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	$ 24	$ 23
Buildings	164	163
Building machinery and equipment	39	37
Construction in progress	6	3
Furniture and equipment	124	135
	357	361
Accumulated depreciation	(136)	(140)
Bank premises and equipment, net	$ 221	$ 221

Depreciation expense was $18 million and $19 million for the years ended December 31, 2000 and 1999, respectively.

The Bank leases unused space to outside tenants. Those leases have terms ranging from 1 to 7 years. Rental income from such leases was $1 million for each of the years ended December 31, 2000 and 1999. Future minimum lease payments under noncancellable agreements in existence at December 31, 2000, were (in millions):

2001	$ 1.0
2002	1.0
2003	1.0
2004	0.2
2005	0.1
Thereafter	0.3
Total	$ 3.6

Notes to Financial Statements

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 5 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 $644 thousand and $738 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 and capital leases, net of sublease rentals, with terms of one year or more, at December 31, 2000, were not material.

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% of the capital paid-in of the claiming Reserve Bank, up to 50% 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 $5 million for each of the years ended December 31, 2000 and 1999, and are reported as a component of "Salaries and other benefits."

Notes to Financial Statements

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	$ 29.8	$ 33.1
Service cost-benefits earned during the period	0.7	0.8
Interest cost of accumulated benefit obligation	2.1	1.9
Actuarial gain	(0.1)	(5.0)
Contributions by plan participants	0.2	0.2
Benefits paid	(2.1)	(1.2)
Plan amendments, acquisitions, foreign currency exchange rate changes, business combinations, divestitures, curtailments, settlements, special termination benefits	2.8	-
Accumulated postretirement benefit obligation at December 31	$ 33.4	$ 29.8

Notes to Financial Statements

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	1.9	1.0
Contributions by plan participants	0.2	0.2
Benefits paid	(2.1)	(1.2)
Fair value of plan assets at December 31	$ -	$ -
Unfunded postretirement benefit obligation	$ 33.4	$ 29.8
Unrecognized prior service cost	9.9	14.3
Unrecognized net actuarial gain	15.0	15.7
Accrued postretirement benefit costs	$ 58.3	$ 59.8

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%.

For measurement purposes, an 8.75% 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% by 2008, and remain at that level thereafter.

Notes to Financial Statements

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	$ 0.2	$ (0.2)
Effect on accumulated postretirement benefit obligation	2.2	(2.0)

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	2.1	1.9
Amortization of prior service cost	(1.6)	(1.6)
Recognized net actuarial loss	(0.8)	(0.5)
Net periodic postretirement benefit costs	$ 0.4	$ 0.6

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 $11 million and $10 million, respectively. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were $2 million for each year.

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