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(Seated)

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President
(Standing)

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First Vice President
(Standing)

Nelson C. Rising
Chairman
(Seated)

LETTER FROM THE BOARDROOM

During 2002 we continued to address the challenges posed by the dramatic changes in the financial services marketplace. In recent years new technologies and financial deregulation have led to the emergence of nationwide branch networks, nonbank competitors, and a rapid shift to e-commerce. Within this new financial landscape, our District and others throughout the Federal Reserve were particularly challenged in our retail payments area by the reality that the long-expected move toward more efficient electronic payments is reducing the volume of checks that are written.

To address this trend, the Federal Reserve re-emphasized its commitment to remain a leader in providing payments services and, at the same time, announced intentions to streamline its check operations nationwide. Anticipating this change, our District refocused its payments business strategy to streamline operations, gain efficiencies, and control costs by realigning staffing levels with check volumes, more carefully targeting our business development efforts to the demands of the new marketplace, and offering new products to financial institutions. By doing so, we are better positioned to remain a competitive provider of financial services.

Financial and technological innovations also are dramatically impacting consumers, requiring greater financial sophistication when it comes to personal money management. Recognizing this impact, our Bank joined the other Reserve Banks around the country to increase the Federal Reserve's involvement in personal financial education. In this report, we look at the new world of money: the complexity that underscores the need for personal financial education now more than ever before, the benefits and challenges for consumers in the marketplace, and Federal Reserve resources and programs to help consumers "make sense of money." From a policymaker's perspective, knowledgeable financial consumers stimulate competition and innovation to support the health and productivity of our economy. This report also looks at economic factors contributing to the need for personal financial education and profiles innovative financial education programs in the Twelfth District.

We would like to take this opportunity to thank our employees for their commitment, innovative spirit, and talent, all of which contributed to our ability to address the challenges we faced during 2002.

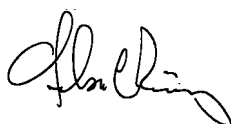
We also would like to extend our thanks and appreciation to our Twelfth District directors for their invaluable counsel during 2002. The directors' independent assessment of economic and financial conditions throughout our nine western states is critical to the formulation of monetary policy. In particular, we acknowledge the many contributions of Robert S. Attiyeh (Senior Vice President and Chief Financial Officer (Retired) and Consultant, Amgen, Inc., Thousand Oaks, California) and of E. Lynn Caswell (Chairman and Managing Director, Zurich American Trust Company, AG, Laguna Niguel, California), both of whom completed

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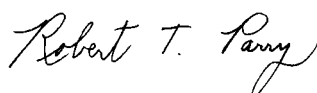
their terms of service on the Head Office Board at the end of 2002 after serving six years each in that capacity.

In addition, we would like to express our sincere thanks and appreciation to the other directors and advisory council members who concluded their terms of service during 2002:

- on the Los Angeles Branch Board: Lori R. Gay (President, Los Angeles Neighborhood Housing Services, Inc., Los Angeles, California); John H. Gleason (Real Estate Development Consultant, California and Texas, ComPlan Advisory, LLC, Scottsdale, Arizona).
- on the Portland Branch Board: Nancy Wilgenbusch (President, Marylhurst University, Marylhurst, Oregon) who served as chairman of the Portland Branch Board for the last four years of her term; Phyllis Bell (President (Retired), Oregon Coast Aquarium, Newport, Oregon); Martin Brantley (President and General Manager (Retired), Oregon's 12-KPTV, Portland, Oregon). We also wish to acknowledge the contributions of former Portland Branch Board director Guy Williams of Coos Bay, Oregon—we were saddened to learn of his death in the fall of the year.
- on the Salt Lake City Branch Board: Maria Garciaz (Executive Director, Salt Lake Neighborhood Housing Services, Inc., Salt Lake City, Utah); J. Pat McMurray, (President and Chief Executive Officer, Idaho Region, Wells Fargo Bank, Boise, Idaho).
- on the Seattle Branch Board: Boyd E. Givan (Senior Vice President and Chief Financial Officer (Retired), The Boeing Company, Seattle, Washington) who served as chairman of the Seattle Branch Board for his final year; James C. Hawkanson (Chairman of the Board (Retired), The Commerce Bank of Washington, N.A., Seattle, Washington).
- on the Twelfth District Advisory Council: Robert L. Vice (President, BLV, Agribusiness Consultants, Fallbrook, California) who served as chairman of the Advisory Council the final year of his term; Lawrence S. Okinaga, (Partner, Carlsmith Ball, Honolulu, Hawaii).



Nelson C. Rising
Chairman



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President