



John F. Moore
First Vice President and
Chief Operating Officer

Janet L. Yellen
President and
Chief Executive Officer

George M. Scalise
Chairman (2005)

David K.Y. Tang
Deputy Chairman (2005)
and Chairman (2006)

Not Pictured

T. Gary Rogers
Deputy Chairman (2006)

MESSAGE FROM THE PRESIDENT

This year's report looks at Asia and the special connection our District and Reserve Bank have with that part of the world. This is fitting on a number of levels. Most obviously, the global economy increasingly is being shaped by developments in Asia, especially by the rise of China and India, which has captured the world's attention. Because of its location, the Twelfth District serves as America's gateway to Asia, creating strong economic ties and giving us a broad perspective on the region. This important international arena has been a strategic focus for the San Francisco Reserve Bank for many years. Knowledge of the region is critical to understanding trends affecting the Twelfth District and the global economy, as well as the implications for monetary policy and our banking supervision responsibilities.

To advance our commitment to understanding issues, our Bank has two long-established programs devoted to Asia: the Center for Pacific Basin Studies in Economic Research and the Country Analysis Unit in the Banking Supervision area. This report features a series of essays authored by experts from these programs. The first essay provides an overview of current developments in Asia and examines the Twelfth District's economic and banking ties with our Pacific Rim neighbors. The second essay compares the rise of China and India and the challenges they face. Subsequent essays delve into the strategic roles of our

own Asia programs and spotlight their areas of expertise with articles covering research related to a series of conferences on the U.S. current account deficit and Asian banking developments in 2005.

Following a long tradition, each year I make at least one trip to Asia. In 2005, I traveled with Federal Reserve Governor Donald Kohn to India, spending time in Mumbai, New Delhi, and Bangalore, which has been called India's "Silicon Valley." We met with senior government and central bank officials, bankers, representatives of U.S. and Indian businesses, academics, and experts from multilateral institutions. These yearly trips advance our broad objective to serve as a repository of expertise on Asia-related economic, banking, and financial issues.

Turning to the operations side of our organization, 2005 was a year of change, challenge, and achievement. The environment in which the Federal Reserve conducts its activities has changed significantly in recent years in response to evolutions in the financial services industry. In 2005, local and national initiatives continued to require workforce restructuring. After processing checks since opening almost 90 years ago, our Salt Lake City and Portland Branches consolidated their processing operations to Denver and Seattle, respectively. In other major transitions, Seattle-Portland check processing moved to leased space and cash operations at the Portland Branch relocated to the Seattle Branch.

In the midst of these transitions, we had numerous achievements. The Portland Branch was selected as one of the Federal Reserve's five check adjustments sites, and our Cash Product Office coordinated the

Federal Reserve's national response to Hurricane Katrina to restore cash services to impacted areas. These and other milestones are chronicled in the Highlights of 2005 section in this report.

I recognize that numerous transitions in 2005 had a significant personal toll for employees, especially for those who were displaced after many years of service. Despite the challenges, they worked with commitment and professionalism. I would like to take this opportunity to acknowledge their dedication and service, as well as the ongoing commitment and contributions of other employees to our organization.

I also would like to extend our thanks and appreciation to our Twelfth District directors for their invaluable counsel during 2005. The directors' independent assessment of economic and financial conditions throughout our nine western states is critical to the formulation of monetary policy.

In particular, I want to acknowledge the many contributions to the Bank and to the Federal Reserve System of retiring Chairman of the Board George M. Scalise, president, Semiconductor Industry Association, San Jose, California. Mr. Scalise completed six years of service to this Reserve Bank, the last two and one-half years serving as its chairman, preceded by two and one-half years as its deputy chairman. In 2005, Mr. Scalise also served as the chairman of the Federal Reserve System's Conference of Chairmen.

In addition, I would like to express my sincere thanks and appreciation to the other directors and advisory council members who concluded their terms of service during 2005:

- *on the San Francisco Board:* Richard C. Hartnack, who was vice chairman, Union Bank of California, N.A., Los Angeles, California, at the time of his service on our board;

- *on the Los Angeles Branch Board:* Sister Diane Donoghue, executive director, Esperanza Community Housing Corporation, Los Angeles, California;

- *on the Portland Branch Board:* Judi A. Johansen, president and chief executive officer, PacifiCorp, Portland, Oregon; and George J. Passadore, Oregon Region chairman, (retired), Wells Fargo Bank, Portland, Oregon;

- *on the Salt Lake City Branch Board:* H. Roger Boyer, chairman, The Boyer Company, Salt Lake City, Utah, who served as chairman of the Salt Lake City Branch Board the last five years;

- *on the Seattle Branch Board:* Mary E. Pugh, president, Pugh Capital Management, Inc., Seattle, Washington; and

- *on the Twelfth District Advisory Council:* Don M. "Duff" Willey, president, Willey Automotive Group, Bountiful, Utah, who served as chairman of the council the last three years, preceded by three years as its vice chairman; Barbara Bry, chief operating officer, Blackbird Ventures, La Jolla, California; and Paul Ecke, III, president, Paul Ecke Ranch, Encinitas, California.



Janet L. Yellen
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