Opening the Temple

An Essay by President and CEO
John C. Williams

FEDERAL RESERVE BANK OF SAN FRANCISCO
2011 ANNUAL REPORT

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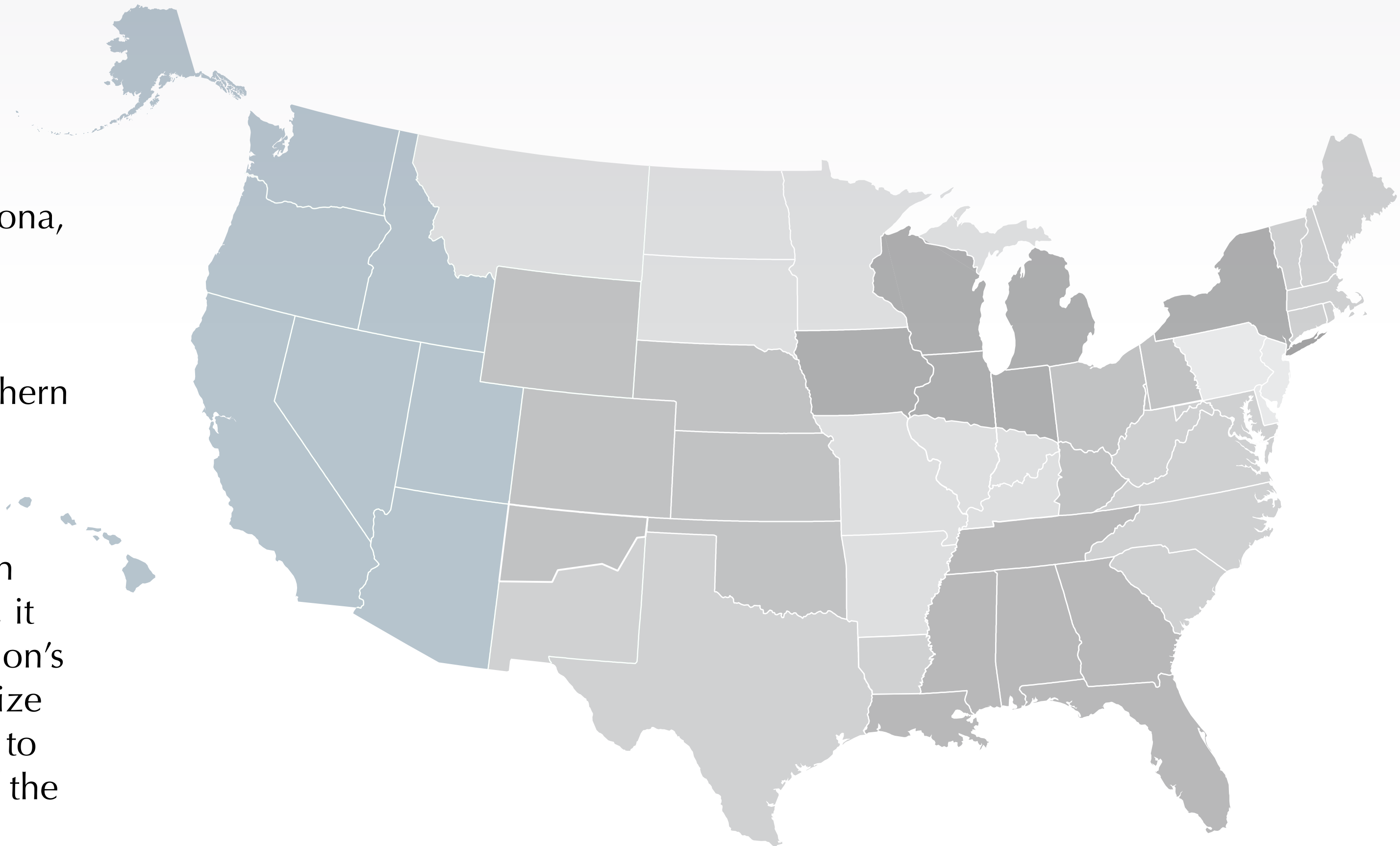
The Federal Reserve Bank of San Francisco is one of twelve regional Federal Reserve Banks across the United States that, together with the Board of Governors in Washington, D.C., serve as our nation's central bank.

The Twelfth Federal Reserve District includes the nine western states—Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington—and American Samoa, Guam, and the Northern Mariana Islands. Branches are located in Los Angeles, Portland, Salt Lake City, and Seattle, with a cash facility in Phoenix. The largest District, it covers 35 percent of the nation's landmass, ranks first in the size of its economy, and is home to approximately 20 percent of the nation's population.



President's Letter

It's a great pleasure to present the Federal Reserve Bank of San Francisco's 2011 Annual Report. The report is coming out at an eventful time for the nation's economy, for monetary policy, and for the Federal Reserve as an institution. The Federal Reserve works hard to carry out the missions assigned to it by Congress. But we haven't always done well explaining our role or clarifying our policies. This is changing, as the essay in this year's report makes clear.

The essay describes the important steps the Federal Reserve is taking to become more accountable and more transparent. In other words, we are striving to give the public a fuller picture of what we do to achieve our congressional mandates: to set monetary policy that achieves maximum employment and stable prices; to supervise financial institutions; and to protect the economy by safeguarding the financial system. As you'll read, the measures the Fed has taken in recent years toward more open and transparent communications have been far-reaching. This is a process that is still underway, and we have much yet to do. Of course, the state of the nation's economy is our foremost concern.

In 2011, the economy presented a mixed picture as it continued along the slow recovery path it has traced for more than two-and-one-half years. The year started slowly, weighed down by temporary factors, including a surge in commodity prices and disruptions caused by the Japanese tsunami. By the second half, growth picked up to a moderate pace, and the unemployment rate dropped significantly. Still, the shadows of the financial crisis and recession of a few years ago darkened the picture. Housing remained deeply depressed, with foreclosures high and new construction at the lowest levels in half a century. Although the job situation improved, millions of Americans were unable to find work, and unemployment remained far too high. Consumption grew at a slow pace, constrained by tight credit and the efforts of households to repair their finances. And, the underlying rate of inflation was close to the Federal Reserve's 2 percent target.

With the national economy performing far below its potential, the Federal Reserve did not meet its employment objective in 2011. That made it essential for us to extend our extraordinarily stimulatory monetary policy. In particular, we lengthened the duration of our portfolio of Treasury securities, which helped push down a broad range of longer-term interest rates close to post-World War II lows. Early in 2012, we also stated we expect to keep the federal funds rate, our short-term benchmark interest rate, exceptionally low at least through late 2014. We also took two steps to improve our communication of monetary policy strategy and plans. Both steps, which are explained in this report, should further reduce uncertainty about our plans.

As with the nation as a whole, economic performance gradually improved in most of the territories and nine Western states of the Twelfth Federal Reserve District. Nevada, Arizona, and California were among those hardest hit by the housing bust, and unemployment rates reached unprecedented highs in parts of the District. But, in 2011, the District's unemployment rate dropped by almost 1½ percentage points from early 2010. The District's technology and aerospace sectors expanded smartly in the San Francisco Bay Area and Washington State, and tourism has been recovering in Hawaii and Nevada. Nevertheless, home foreclosures remained high in many areas, one sign that the District has a long way to go before economic conditions return to normal.

The Federal Reserve began to overhaul its approach to supervising financial institutions several years ago. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 reinforced those efforts. At the San Francisco Fed, staff members are working hard to implement provisions of the new law. Major provisions of Dodd-Frank require the Federal Reserve to enhance its supervision of institutions whose failures could threaten the health of the financial system. Numerous related milestones were achieved in 2011 including proposing or finalizing rules for capital and stress testing, incentive compensation, and plans for the organized resolution of troubled institutions. Dodd-Frank also transferred supervision of savings and loan holding companies to the Federal Reserve in 2011.

The San Francisco Fed is fortunate to have extraordinary employees. Our staff members demonstrated outstanding dedication to their work and to the public in 2011. Under our Cash Product Office's leadership, Reserve Bank productivity in the processing of cash reached an all-time high, resulting in significant savings. Information and Technology Services staff helped expand our leadership role in this important area and other areas as a technology solutions center within the Fed System. Our Statistics and Reserves staff members are partnering with information technology staff to implement new systems to support the execution of monetary policy in the future.

In 2011, many Bank departments made important contributions to communicating the Fed's roles and policies. Economic Research staff supported me in my role as a monetary policymaker. They also produced numerous research papers and 38 *Economic Letters,* which examine important economic issues in a nontechnical manner.

During the year, our Office of Minority and Women Inclusion (OMWI) played a key part in the Bank's efforts to recruit minorities and women for employment, improve opportunities for minority- and women-owned businesses to provide goods and services to the Bank, and to provide financial education for underserved populations. We established the OMWI in 2010, in keeping with the Dodd-Frank requirement that all Reserve Banks set up OMWI functions by January 21, 2011. Following on recommendations of the Government Accountability Office to provide more information about how Reserve Banks are governed, Public Information launched a governance section on our website. And our Community Development staff worked to support economic stabilization efforts in hard-hit communities.

I would like to express my deep appreciation to our employees for their continued public service during the past year. I also want to thank all our Twelfth District directors and advisory council members. The ranks of our family of directors and advisors expanded in 2011 when we established a new regional advisory group, the Community Depository Institutions Advisory Council, to help us better understand economic and financial conditions in the Twelfth District. All 12 Reserve Banks created similar regional advisory councils during the year, following the establishment of a national council by the Board of Governors in 2010.

All of our advisory council members and directors perform an invaluable service, acting as ambassadors for the Fed in their communities, and providing our Bank with vital information about economic and business conditions throughout the District. I want to especially express my sincere thanks and warm wishes to those directors and advisory council members who concluded their terms of service in 2011. In particular, I would like to acknowledge the contributions made by Karla S. Chambers, vice president and co-owner, Stahlbush Island Farms, Inc. in Corvallis, Oregon. Mrs. Chambers completed 20 continuous years of service to the Bank. During that time, she served on the boards of our Head Office and our Portland Branch, including two years as the Branch chairman. Mrs. Chambers also was a member and served as the vice chairman of our then Twelfth District Advisory Council on Small Business and Agriculture. In addition, I want to express my deep appreciation to Dann H. Bowman, president and chief executive officer of Chino Commercial Bank, N.A., in Chino, California. Mr. Bowman stepped down from our Head Office board in 2011, after three years of service. Finally, let me thank our other directors and advisory council members who concluded their terms of service in 2011. These include:

- **on the Los Angeles Branch board:** Ann E. Sewill, president, Community Foundation Land Trust, California Community Foundation, Los Angeles, California;

- **on the Portland Branch board:** Peggy Y. Fowler, retired chief executive officer and president, Portland General Electric, Portland, Oregon;

- **on the Salt Lake City Branch board:** Robert A. Hatch, president, Regence BlueCross BlueShield of Utah, Salt Lake City, Utah; and Clark D. Ivory, chief executive officer, Ivory Homes, Ltd., Salt Lake City, Utah, who served as chairman of the Salt Lake City Branch board for three years;

- **on the Twelfth District Economic Advisory Council:** Jonathan Coslet, chief investment officer and senior partner, TPG Capital, L.P., San Francisco, California; Susan Desmond-Hellmann, M.D., M.P.H., chancellor, University of California, San Francisco; and Cathy Luke, president, Loyalty Enterprises, Ltd., Honolulu, Hawaii; and

- **as a Twelfth District member and vice chairman of the Federal Advisory Council:** Russell Goldsmith, chairman and chief executive officer, City National Bank, Los Angeles, California.

John C. Williams
President and Chief Executive Officer

Opening the Temple

By President and CEO John C. Williams

Twenty-five years ago, a popular book about the Federal Reserve carried the provocative title *Secrets of the Temple*. The Federal Reserve described in that book was secretive, tight-lipped, and remote. Its deliberations were shielded from scrutiny. It chafed at Congressional attempts to cast sunlight on its operations. And its policy decisions were not even announced, let alone explained.

A fundamental shift has taken place in the years since then. Today's Fed has become much more open and transparent. Our websites contain detailed information about our policies and programs, our governance structure, and our code of ethics. We've also made far-reaching changes in how we communicate our monetary policy decisions. For example, after every policy meeting, we release a statement explaining what we've done and why we've done it. We publish detailed minutes just three weeks after we meet. And, last year, Chairman Bernanke began holding regular press conferences.

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The Fed's move out of the shadows has been at times slow and hasn't always been voluntary. It's fair to say that, in many ways, a clamor from Congress, the media, and the public initially forced the doors open. Nor has it always been comfortable, for example, to see our internal deliberations and disagreements laid bare.

But the fact is that this greater openness is genuine, it's positive, and it's irreversible. Inside the Fed, a consensus has developed on the necessity and value of greater disclosure, accountability, and candor, a view that has taken hold strongly under the leadership of Chairman Bernanke. Transparency "not only helps make central banks more accountable, it also increases the effectiveness of policy," the Chairman said in 2010. When the public better understands what the Fed is trying to do, uncertainty about its policies is reduced, and households and businesses are able to make spending and investment decisions with greater confidence.

More fundamentally, in a democratic society, an institution that performs functions as vital as the Federal Reserve must operate in the public eye as much as possible. What we do at the Fed is not always easy for the public to understand. Clear communication and greater openness are essential to promote understanding, counter misinformation, and earn public trust and support.

This is all the more true because of the Fed's special status. Congress chartered the Federal Reserve Board of Governors in Washington, D.C., and the 12 Reserve Banks, including the San Francisco Fed, to carry out important public policy functions. Notable among those functions is setting the nation's monetary policy. Congress granted us a large measure of independence in setting monetary policy so we wouldn't be subject to the whims of short-term political pressures, and our decisions would be based solely on what is good for the country. This independence gives us a rare and privileged status among agencies charged with a public purpose. However, with this privilege comes a great responsibility: to operate for the public good, to be accountable to the public, to hold ourselves to the highest ethical standards, and to be open to criticism.

I would be among the first to argue that the steps the Fed already has taken toward transparency are far-reaching. In many ways, they amount to a cultural regime change. But I believe we must strive to find ways to further earn the trust and understanding of the American people. For example, we can do a better job of explaining what our mission is, how we're structured, and why we do what we do. That also means making clear what the Fed does not control, such as tax and spending decisions. We can also do better at showing how the Federal Reserve affects the everyday lives of people across the country. And, we can make increasing use of new technologies, such as social media, to encourage real dialog between the Fed and people from all walks of life.

It's worthwhile examining where we've made progress and where we still have room for improvement if we are to be exemplary in the area of transparency. So let me review our accomplishments and our remaining challenges in three areas: monetary policy, financial stability, and governance.

Monetary policy

Monetary policy is a core area of responsibility for the Fed. Our actions to set interest rates and influence credit conditions are critical factors affecting the levels of inflation, employment, and overall economic activity. The past two decades have seen a steady progression in the quality and quantity of information the Fed makes public about its monetary policy decisions.

It was just 18 years ago, in 1994, that our monetary policy body, the Federal Open Market Committee (FOMC), first began releasing statements following its meetings describing its policy decision. Before then, financial markets were expected to figure out what we decided by watching the movements of the federal funds rate, the key short-term interest rate we control. The statement issued on February 4, 1994, said, "the Federal Open Market Committee decided to increase slightly the degree of pressure on reserve positions. The action is expected to be associated with a small increase in short-term money market interest rates. The decision was taken to move toward a less accommodative stance in monetary policy in order to sustain and enhance the economic expansion."

This first step toward greater transparency was hesitant. The statement actually justified its own existence, saying that a decision was made "to announce this action immediately so as to avoid any misunderstanding of the Committee's purposes, given the fact that this is the first firming of reserve market conditions by the Committee since early 1989." Moreover, those early statements wouldn't win any prizes for clarity. Indeed, the FOMC statements did not explicitly spell out the Fed's target for the federal funds rate until July 1995. Yet, despite the initial awkwardness, these statements were an important move in the right direction.

Today, the FOMC statements provide much greater clarity about why we make our policy decisions. The FOMC issues a statement immediately following every scheduled meeting. These offer a concise description of and reasons for our policy decisions, an assessment of current economic conditions and the outlook for the economy, and guidance on the possible future course of policy. In addition, the statements include the policy votes of all Committee members, with explanations of the reasons for any dissenting votes.

The Fed has greatly improved and expanded its public communication of its policy actions in other ways too. The detailed minutes we release three weeks after each scheduled meeting provide a richer description of the Committee's views on economic conditions and the considerations underlying policy decisions than can be included in post-meeting statements. Moreover, the Fed releases transcripts of its meetings with a five-year lag. In addition, Federal Reserve Board governors and Reserve Bank presidents regularly speak before business, community, government, and academic groups. At these events, Fed speakers often take questions from the audience and hold briefings for reporters. And Board governors and staff routinely testify to Congress about Fed policies.

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In 2011, Chairman Bernanke started holding regular press conferences following policy meetings. This has proved an excellent opportunity for the Chairman to explain Federal Reserve policies and answer questions from the media. Four times a year, Federal Reserve governors and presidents now publish their three-year projections for gross domestic product, unemployment, and inflation. And, at the San Francisco Federal Reserve Bank, we publish our own economic outlook 11 times a year on our website under the name *FedViews*, a practice we started back in 1996.

In January 2012, we took two of the boldest steps toward greater transparency and openness yet, significantly broadening and deepening our openness about monetary policy. First, we released a document called "Statement of Longer-Run Goals and Policy Strategy." This is the first time the FOMC has offered a detailed and specific explanation of how Fed policymakers interpret the mandate Congress assigned the Fed: to promote maximum employment and stable prices. Among other things, the document states that Fed policymakers view an inflation rate of 2 percent as most consistent with our mandate. Other central banks, including those of New Zealand, Canada, Australia, and the United Kingdom, as well as the European Central Bank, had already issued similar statements, so we were behind in this important area. The statement also notes the estimates of FOMC participants that, in the long run, the normal rate of unemployment falls between 5.2 and 6 percent. The statement clarifies that the FOMC "follows a balanced approach in promoting (its goals), taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate."

Second, FOMC participants now regularly report their views about the probable course of short-term interest rates over the next few years. In essence, that's a way for policymakers to explain what they think monetary policy should be in the years ahead. Releasing the views of FOMC participants this way should help the public understand better our policy plans and the factors that cause us to change them. This greater clarity about our thinking, in turn, improves the effectiveness of our policies in achieving our mandated goals, and enhances the accountability and transparency of our actions.

These initiatives represent almost a total turnaround from the days when the public had to guess what the Fed was doing. I am proud to say that we've gone from being behind the curve relative to other central banks to becoming one of the leaders in transparency, accountability, and openness about monetary policy.

Financial stability

I would give the Fed very high marks for its financial rescue efforts. But I would give us lower marks for explaining and building support for them.

Since the financial crisis of 2007–2009, no area of our work has sparked more controversy than our role as guardian of financial stability. Just a few short years ago, the financial system was in crisis. After the housing bubble burst and the private financial markets teetered on the edge of a complete breakdown, the Fed, along with the Treasury Department and other U.S. agencies, intervened on a massive scale to provide emergency funding to hundreds of financial institutions. Those programs were essential in staving off a catastrophic collapse of the financial system. They helped avert economic catastrophe and unemployment comparable to the Great Depression, when a quarter of the workforce was idled. But such large-scale aid to financial institutions at a time when millions of ordinary Americans were losing their jobs or their homes made many people confused and angry.

When the stakes are as big as they were then, accountability and disclosure are more critical than ever. Events occur at a dizzying pace. The Fed's actions can be confusing and unclear, and can easily be misinterpreted. The American people are entitled to a complete explanation of how the Fed uses its emergency authority and its other powers. And only by the fullest possible disclosure can we gain a measure of public understanding and support for such actions.

I would give the Fed very high marks for its financial rescue efforts. But I would give us lower marks for explaining and building support for them. For example, one myth that gained a lot of currency was that our crisis lending programs were kept secret. In fact, we publicly disclosed all our loan programs and released the amounts lent in weekly financial statements available on our website. We also posted detailed descriptions of the programs on our websites, and Chairman Bernanke testified to Congress about them on numerous occasions. The only things we didn't disclose at the time were the identities of individual borrowers and the amounts lent to them.

Such disclosures are always a dilemma for a lender of last resort in a time of panic. Naming the institutions using our emergency lending programs identifies borrowers that may be struggling to raise funds in the open market. That can intensify panic, and spur creditors and depositors to take their money out of those institutions as fast as they can. The fear of such a stigma makes it less likely that institutions will borrow from us, which could worsen the problems in the financial system. If everyone is afraid to come to the Fed because of this stigma, then our lending programs won't help. For this reason, the Fed in the past did not make public the names of our borrowers or the amounts they individually received.

This too has changed. The Dodd-Frank Act (DFA) passed by Congress in 2010 requires the Fed to release details of loans to banks and thrifts after a two-year waiting period. In addition, the DFA requires the Fed to publish detailed accounts of all its emergency lending programs put in place during the financial crisis. The Fed has done this. The law also requires the Fed to release detailed accounts of future emergency lending programs within a year of program closures. Furthermore, the DFA authorizes the Government Accountability Office (GAO), an independent arm of Congress, to perform audits of such programs. These measures represent a reasonable balance between accountability and transparency on the one hand and, on the other hand, the need to guard against panics and bank runs in the midst of a crisis.

In addition, the Fed has become more open regarding its assessments of the financial health of the largest banks in the country. Traditionally, all supervisory information about banks was kept secret. But, during the depth of the crisis, no one was sure which banks were strong and which could be on the verge of collapse. As a result, confidence in the entire banking system plummeted. In early 2009, the Fed, working with other regulatory agencies, published the results of the first stress tests of the largest banks. These tests gave the public a better understanding of the financial health of each of the largest banks, reducing uncertainty and fear. In March of this year, the Federal Reserve publicly released the results of its latest stress tests of the largest banks. Publication of the stress test results has proven to strengthen public confidence in the banking system.

2 BOLD STEPS IN 2012

1) FOMC provides statement of longer-run goals and monetary policy strategy that includes a 2% numerical inflation target.

2) Fed policymakers regularly report their short-term interest rate projections over the next few years.

LENDING PROGRAMS DISCLOSED

With the passage of the 2010 Dodd-Frank Act, the Fed will release details of loans to banks and thrifts after a two-year waiting period and details of future emergency lending programs within a year of their closures.

POLICYMAKERS' FINANCIAL FORMS AVAILABLE

The 12 Reserve Bank presidents make their financial disclosure forms available on Fed websites, following the Board of Governors' practice.

Governance

Accountability and openness cannot just be about the policy decisions we make. They must also be about how we operate as an organization. Given our special status as an independent agency with both public and private features, it's imperative that we work for the public good, and avoid both the substance and appearance of conflicts of interests. We have among the most stringent ethics rules of any public agency, as we should. Because of the sensitive nature of the work we do, we can't allow any questions to arise about our integrity. But in the past we were not as effective as we should have been at communicating these policies. This is another area of change. We have highlighted our ethics and conflict of interest policies on our websites. And we've made available the financial disclosure forms of the 12 Bank presidents, a practice the Board of Governors already followed.

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High ethical standards must hold not only for employees of the Federal Reserve System, but also for the directors of the nation's 12 Federal Reserve Banks. The law that created the Fed specified that some of those directors must represent the banking industry. And, of course, supervision and regulation of that industry is one of our most important functions. We have strict rules that prohibit our directors from the banking industry from interfering with bank supervision. The Dodd-Frank Act required the GAO to review Reserve Bank governance, with special attention to the role of Reserve Bank directors. In general, the GAO found that the Reserve Banks work conscientiously to avoid director conflicts, especially in bank supervision. The GAO made four recommendations to strengthen protections against conflict and improve public disclosure. These included increasing the economic and demographic diversity of board members; spelling out clearly the responsibilities of directors in Bank bylaws; developing clear policies for allowing exceptions to our rules on board eligibility or conflict; and improving public disclosure of information on board committee and ethics policies.

The Reserve Banks are actively moving to carry out the GAO recommendations. At the San Francisco Fed, we finished putting into effect policies and practices in line with the recommendations in February 2012. Shortly after that, we went live with a new governance section of our website, which includes our bylaws and related documents. Finally, the Fed is audited. In fact, due to our special public-private organizational structure, we are audited several times over! We publish a detailed account of our balance sheet every week on Thursday. Our books are subject to a stringent reporting process and are regularly reviewed by an external auditor. And the GAO regularly examines our activities and programs.

In sum, our moves over the past few decades to be a more open organization are essential and, in many respects, overdue. Every step we've taken toward greater openness and clearer communication has made our policies more effective and has served to enhance the Fed's accountability and transparency. This is imperative in a democratic society. We must not rest on our laurels. We have a great deal more to do. We must examine all areas of our operations to identify where we need to improve, and we need to move forward with resolution and conviction.

Greater openness is not always easy. Transparency also means recognizing that questions and constructive criticism help us do our job better. This may at times be uncomfortable, but it spurs us to consider our decisions with an open mind, an essential first step in making better decisions in the future. It's clear that there's much to gain and little to lose as the Fed becomes more open and accountable. It's good public policy, it's the right policy, and it's good monetary policy.

FEDERAL RESERVE BANK • SAN FRANCISCO •

Bank Leadership

as of January 1, 2012

Douglas W. Shorenstein
Chairman

John C. Williams
President and
Chief Executive Officer

John F. Moore
First Vice President and
Chief Operating Officer

Patricia E. Yarrington
Deputy Chairman

Executive Committee and Advisors

as of January 1, 2012

(Left to Right)

Deborah S. Smyth (Advisor) Group Vice President and Information Security Officer Information & Technoloty Services

Teresa M. Curran Senior Vice President and Director Banking Supervision & Regulation

Lee C. Dwyer (Advisor) Group Vice President and General Auditor

Mark L. Mullinix Executive Vice President National Cash Product Office, Accounting, Credit and Risk, Enterprise Risk Management, Financial Planning and Control, and Los Angeles Branch Manager

Roger W. Replogle Senior Vice President District Cash, Administrative Services, Police Services, Facilities, Customer Support, Business Continuity, Business Development, and Los Angeles Branch Assistant Manager

John C. Williams President and Chief Executive Officer

Mark A. Gould Senior Vice President Cash Product Office and Seattle Branch Manager

John F. Moore First Vice President and Chief Operating Officer, and Cash Product Office Director

Glenn D. Rudebusch Executive Vice President and Director of Research Economic Research

Susan A. Sutherland Senior Vice President Equal Employment Opportunity, Human Resources, Statistics, and Strategy & Communications, and Director, Office of Minority and Women Inclusion

Gopa Kumar Senior Vice President and Chief Information Officer Information & Techonology Services

Erik Z. Revai (Advisor) Group Vice President and General Counsel

Chirmere M. Harris Secretariat

Not Pictured:

David M. Wright
Senior Vice President and Deputy Director
Banking Supervision & Regulation

David W. Walker
Group Vice President
Banking Supervision & Regulation

Branch Managers

as of January 1, 2012

Robin A. Rockwood	**Mark A. Gould**	**Mark L. Mullnix**	**Steven H. Walker**
Salt Lake City	Seattle	Los Angeles	Portland

San Francisco Head Office Board of Directors

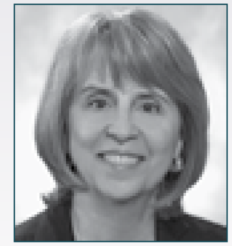
as of January 1, 2012

Boards of directors of the Reserve Banks and Branches provide the Federal Reserve System with a wealth of information on economic conditions in every corner of the nation. This information, along with other sources, is used by the Federal Open Market Committee and the Board of Governors when reaching decisions about monetary policy.

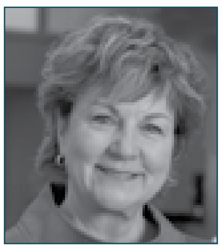
Chairman of the Board and Federal Reserve Agent

DOUGLAS W. SHORENSTEIN
Chairman and
Chief Executive Officer
Shorenstein Properties LLC
San Francisco, California

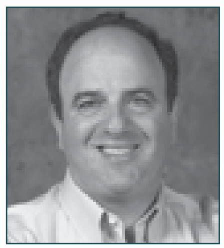
Deputy Chairman



PATRICIA E. YARRINGTON
Vice President and
Chief Financial Officer
Chevron Corporation
San Ramon, California

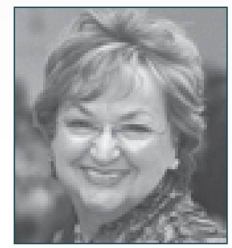


MEGAN F. CLUBB
President and
Chief Executive Officer
Baker Boyer National Bank
Walla Walla, Washington



RICHARD A. GALANTI
Executive Vice President and
Chief Financial Officer
Costco Wholesale Corporation
Issaquah, Washington

WILLIAM D. JONES
President and
Chief Executive Officer
City Scene Management Company
San Diego, California



BETSY LAWER
Vice Chair
First National Bank Alaska
Anchorage, Alaska

BLAKE W. NORDSTROM
President
Nordstrom, Inc.
Seattle, Washington

NICOLE C. TAYLOR
President and
Chief Executive Officer
East Bay Community Foundation
Oakland, California

KENNETH P. WILCOX
Chairman
Silicon Valley Bank
Santa Clara, California

Member of the Federal Advisory Council, Appointed by San Francisco Board of Directors

J. MICHAEL SHEPHERD
Chairman and
Chief Executive Officer
Bank of the West and
BancWest Corporation
San Francisco, California

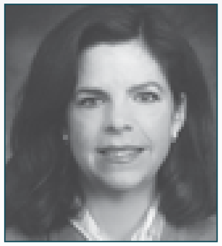
Los Angeles Branch Board of Directors

*as of January 1, 2012**

Chairman

KEITH E. SMITH
President and
Chief Executive Officer
Boyd Gaming Corporation
Las Vegas, Nevada

JOSEPH C. BERENATO
Chairman of the Board
Ducommun Incorporated
Carson, California



GRACE EVANS CHERASHORE
President and
Chief Executive Officer
Evans Hotels
San Diego, California

JOHN C. MOLINA
Chief Financial Officer
Molina Healthcare, Inc.
Long Beach, California

DAVID I. RAINER
Chairman, President, and
Chief Executive Officer
California United Bank
Encino, California

ANDREW J. SALE
Partner
Americas Automotive Leader
Ernst & Young LLP
Los Angeles, California

** Reflects one vacant seat*

Portland Branch Board of Directors

*as of January 1, 2012**

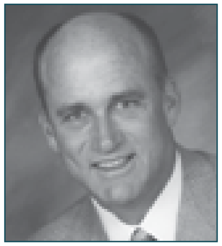
Chairman

DAVID Y. CHEN
Chief Executive Officer
Equilibrium Capital Group LLC
Portland, Oregon

ROBERT C. HALE
Chief Executive Officer
Hale Companies
Hermiston, Oregon

ROGER W. HINSHAW
President, Oregon and
SW Washington
Bank of America Oregon, N.A.
Portland, Oregon

JOSEPH E. ROBERTSON, JR., M.D.
President
Oregon Health & Science University
Portland, Oregon



RODERICK C. WENDT
Chief Executive Officer
JELD-WEN, inc.
Klamath Falls, Oregon

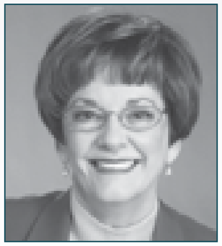
** Reflects two vacant seats*

Salt Lake City Branch Board of Directors

*as of January 1, 2012**

Chairman

SCOTT L. HYMAS
Chief Executive Officer
RC Willey
Salt Lake City, Utah



CAROL CARTER
President and
Chief Executive Officer
Industrial Compressor Products, Inc.
Park City, Utah

DAMON G. MILLER
Utah Market President
U.S. Bank
Salt Lake City, Utah

ALBERT T. WADA
Chairman and
Chief Executive Officer
Wada Farms, Inc.
Pingree, Idaho

WILLIAM DONALD WHYTE
President
Kennecott Land
South Jordan, Utah

BRADLEY J. WISKIRCHEN
Chief Executive Officer
Keynetics Inc.
Boise, Idaho

** Reflects one vacant seat*

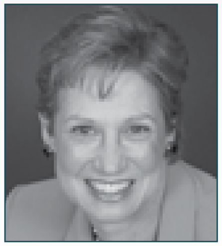
Seattle Branch Board of Directors

as of January 1, 2012

Chairman

MARY O. McWILLIAMS
Executive Director
Puget Sound Health Alliance
Seattle, Washington

MARTHA CHOE
Chief Administrative Officer
The Bill & Melinda Gates Foundation
Seattle, Washington



ADA M. HEALEY
Vice President, Real Estate
Vulcan Inc.
Seattle, Washington

HENRY L. KOTKINS, JR.
Chairman and
Chief Executive Officer
Skyway Luggage Company
Seattle, Washington

SCOTT L. MORRIS
Chairman, President and
Chief Executive Officer
Avista Corporation
Spokane, Washington

NICOLE W. PIASECKI
Vice President
Business Development &
Strategic Integration
Boeing Commercial Airplanes
Seattle, Washington

PATRICK G. YALUNG
Regional President
Washington
Wells Fargo Bank, N.A.
Seattle, Washington

Twelfth District Economic Advisory Council

as of January 1, 2012

Established May 1985

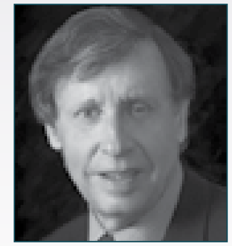
The Twelfth District Economic Advisory Council is a source of information on current and pending economic developments in the Twelfth District. The members provide observations, opinions, and advice to members of the boards of directors and management of the Federal Reserve Bank of San Francisco. The Twelfth District Economic Advisory Council members reside within the nine state District of this Reserve Bank.

Chairman

MARY F. KAISER
President
California Community Reinvestment Corporation
Glendale, California

Vice Chairman

ALFRED A. PLAMANN
Chief Executive Officer
Unified Grocers, Inc.
Commerce, California

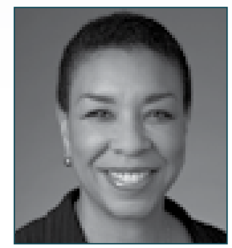


RICHARD C. BLUM
Chairman and
Chief Executive Officer
Blum Capital Partners
San Francisco, California

IAN T. CLARK
Chief Executive Officer
Genentech
South San Francisco, California

TRACEY C. DOI
Group Vice President and
Chief Financial Officer
Toyota Motor Sales, USA, Inc.
Torrance, California

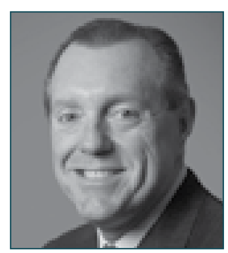
PHILIP L. FRANCIS
Executive Chairman
PetSmart, Inc.
Phoenix, Arizona



KIM ROBERTS HEDGPETH
National Executive Director
American Federation of Television and Radio Artists
Los Angeles, California

SANDRA R. HERNÁNDEZ, M.D.
Chief Executive Officer
The San Francisco Foundation
San Francisco, California

RICK R. HOLLEY
President and
Chief Executive Officer
Plum Creek Timber Co., Inc.
Seattle, Washington



ROY A. VALLEE
Executive Chairman
Avnet, Inc.
Phoenix, Arizona

GEORGE ZINN
Corporate Vice President
and Treasurer
Microsoft Corporation
Redmond, Washington

Twelfth District
Community Depository Institutions Advisory Council

as of January 1, 2012

Established January 2011

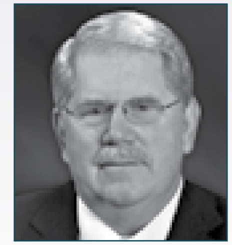
The Twelfth District Community Depository Institutions Advisory Council (CDIAC) serves as an important source of information on the ability of community depository institutions to support local markets in the Twelfth District by providing observations, opinions, and advice to management of the Federal Reserve Bank of San Francisco and members of the Board of Governors of the Federal Reserve System. CDIAC members reside within the nine-state District of this Reserve Bank.

Chairman

JOHN V. EVANS, JR.
Chief Executive Officer
DL Evans Bank
Burley, Idaho

Vice Chairman

RONALD A. BARRICK
President and
Chief Executive Officer
Advantis Credit Union
Milwaukie, Oregon



WILLIAM E. CASTLE
President and
Chief Executive Officer
South Valley Bank and Trust
Klamath Falls, Oregon

JAMES E. CHRISTENSEN
President and
Chief Executive Officer
Gateway Commercial Bank
Mesa, Arizona

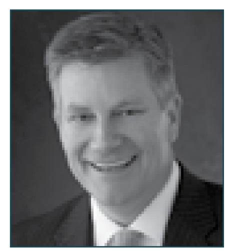
DANIEL J. DOYLE
President and
Chief Executive Officer
Central Valley Community Bank
Fresno, California

STEVEN R. GARDNER
President and
Chief Executive Officer
Pacific Premier Bank
Costa Mesa, California

HARRY M. HAIGOOD
Chief Executive Officer
One PacificCoast Bank
Oakland, California

CONSTANCE H. LAU
Chairman
American Savings Bank
Honolulu, Hawaii

ARVIND A. MENON
President and
Chief Executive Officer
Meadows Bank
Las Vegas, Nevada



DARIN B. MOODY
President and
Chief Executive Officer
Utah First Federal Credit Union
Salt Lake City, Utah

JAMES R. WOOLWINE
Chairman
Presidio Bank
San Francisco, California

Bank Officers and Principals

as of January 1, 2012

San Francisco Head Office

John C. Williams
President and Chief Executive Officer

John F. Moore
First Vice President and Chief Operating Officer

Glenn Rudebusch
Executive Vice President and Director of Research

Teresa M. Curran
Senior Vice President and Director of Supervision and Regulation

Gopa Kumar
Senior Vice President and Chief Information Officer

Susan A. Sutherland
Senior Vice President and Director, Office of Minority and Women Inclusion

David M. Wright
Senior Vice President and Deputy Director of Banking Supervision and Regulation

Clifford N. Croxall
Group Vice President

Mary C. Daly
Group Vice President and Associate Director of Research

Lee C. Dwyer
Group Vice President and General Auditor

John G. Fernald
Group Vice President and Associate Director of Research

Fred T. Furlong
Group Vice President

Reuven Glick
Group Vice President

Joy K. Hoffmann
Group Vice President

Robert E. Kellar
Group Vice President

Donald R. Lieb
Group Vice President and Chief Financial Officer

Darren S. Post
Group Vice President

Erik Z. Revai
Group Vice President and General Counsel

Deborah S. Smyth
Group Vice President

David W. Walker
Group Vice President

Tracy A. Basinger
Vice President

Barbara A. Bennett
Vice President

Kenneth R. Binning
Vice President

Sharon E. Chow
Vice President

Stanley M. Crisp
Vice President

Thomas M. Cunningham III
Vice President

Beverley-Ann Hawkins
Vice President and Equal Employment Opportunity Officer

Warren C. Howard
Vice President

Ann Marie Kohlligian
Vice President

Simon H. Kwan
Vice President

Patrick J. Loncar
Vice President

Jose A. Lopez
Vice President

William O. Riley
Vice President

Mark M. Spiegel
Vice President

David G. Tresmontan
Vice President

Scott C. Turner
Vice President

Kevin E. Zerbe
Vice President

Rajat Agarwal
Director

Kevin C. Alecca
Director and Assistant General Auditor

Thomas A. Ballantyne
Director

Amy K. Burr
Director

Richard K. Cabral
Director

Marie C. Dimapasoc
Director

Michael J. Fernandez
Director

Julie Ann Guimond
Director

Chad K. Harper
Director

Dawn D. Hennings
Director

Jackie C. Hicks
Director

Philip D. Jasienczyk
Director

Joe A. Lozano
Director

Rick A. Miller
Director

David J. Moore
Director

David E. Reiser
Director

Matthew M. Schlereth
Director

Byeongyong Seo
Director

Kenneth J. Simurdiak
Director

Gerald C. Tsai
Director and Associate General Counsel and Secretary of the Board

Paulette M. Wallace
Director

Adair L. Willard
Director

Susan T. Wong
Director

Walter Y. Yao
Director

Wallace A. Young
Director

Bart Hobijn
Senior Research Advisor

Eric T. Swanson
Senior Research Advisor

Oscar Jorda
Research Advisor

Sylvain Leduc
Research Advisor

Zheng Liu
Research Advisor

Bharat Trehan
Research Advisor

Robert G. Valletta
Research Advisor

Michael V. Derry
Chief IT Strategist

Cynthia L. Course
Principal

Maureen E. O'Byrne
Principal

Millen L. Simpson
Principal

Steven P. Takizawa
Principal and Associate General Counsel

Los Angeles Branch

Mark L. Mullinix
Executive Vice President

Roger W. Replogle
Senior Vice President

Deborah Awai
Group Vice President

Rita G. Aguilar
Director

Jose Alonso
Director

Anthony P. Dazzo
Director

Philip B. Johnson
Director

James LeVoir
Director

Richard J. Shershenovich
Director

Marla E. Borowski
Principal

Dale L. Vaughan
Principal

Portland Branch

Peggy L. Speck
Vice President

Steven H. Walker
Vice President

Salt Lake City Branch

Robin A. Rockwood
Vice President

Seattle Branch

Mark A. Gould
Senior Vice President and Chief Information Officer

Lynn M. Jorgensen
Director

Darlene R. Wilczynski
Director

Summary of Operations

	(volume in thousands)	
	2011	**2010**
Cash Services		
Currency notes paid into circulation	5,653,561	5,455,608
Unfit currency destroyed	780,645	972,076
Coin bags paid into circulation (bags)	1,632	1,590
Check Services		
Paper Checks		
Commercial checks processed	---	---
Return checks Processed	---	---
Check 21		
Commercial checks processed	---	1,095,997
Return checks Processed	---	21,613
Discounts and Advances		
Total discounts and transactions*	258	563
Number of financial institutions accommodated*	133	145

**Whole number (not in thousands)*

Financial Statements

2011

Auditor Independence

In 2011, the Board of Governors engaged Deloitte & Touche LLP (D&T) to audit the combined and individual financial statements of the Reserve Banks and those of the consolidated LLC entities. Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available net assets. In 2011, D&T also conducted audits of internal control over financial reporting for each of the Reserve Banks and the consolidated LLC entities. Fees for D&T's services totaled $8 million, of which $2 million was for the audits of the consolidated LLC entities. To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audits. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2011, the Bank did not engage D&T for any non-audit services.

View the Federal Reserve Bank of San Francisco's 2011 financial statements,
along with financial statements for the entire Federal Reserve System, at:

http://www.federalreserve.gov/monetarypolicy/files/BSTSanFranciscofinstmt2011.pdf

Credits

Production: Strategy & Communications

Photography: Mark Compton Photography (pages 15, 16, 17)

Thank you to the following departments for their contributions to the 2011 annual report: Community Perspectives, Economic Research, Credit & Risk Management, District Cash, Accounting, Office of the Secretary, Public Information, and Human Resources.

For notification of future annual report online postings, subscribe at: www.frbsf.org/publications/federalreserve/annual