



Dr. Anthony M. Santomero, President

Our strategies  
evolve, but  
our focus  
on excellence  
remains constant.

## OUR STRATEGY is straight

The year 2002 was a challenging one for our country, filled with financial uncertainty and geopolitical turmoil. Economically, the rise from recession was slower and more difficult than initially anticipated. Indeed, the future course of the economy is still very much on everyone's mind.

Times such as these challenge the Federal Reserve in all its dimensions — as monetary policymaker, as regulator, and as payments provider. I am proud of the contributions the Philadelphia Reserve Bank makes to meet those challenges.

Our strategy for facing these trying times is straightforward: to learn and to lead. Though simple, it serves us well as a “Strategy for Changing Times.”

### TO LEARN

The cornerstone of our strategy is to continue to build upon our knowledge of the financial services industry and the economy at large. Rapid change is a fact of life; so we constantly strive to develop new knowledge and new capacity to ensure financial system integrity and economic stability.

One example is the recent establishment of the Payment Cards Center. The Center engages in intense study of evolving techniques in retail payments. Use of credit cards, debit cards, and other new methods of payment is growing rapidly, and the Center provides meaningful insights into payments innovations and the issues they raise.

To help build knowledge and capability in the regulatory arena, we recently began a project to quantify the impact of growth in retail credit on the overall safety and soundness of the financial system. This project leverages the expertise we developed in our extensive analysis of consumer credit risk and the credit card industry concentrated in our District.

As part of our effort to build knowledge as monetary policymakers, we held our second annual Policy Forum last year. The Forum brought together central bankers and policy experts from around the world to debate the value of international coordination in setting domestic monetary policy.

processing network that positions the Fed to continue delivering check services at reasonable prices to its customers all across the country.

On the more technical side, the Bank continues to lead System efforts to combat check fraud. In partnership with both industry groups and the U.S. Treasury, we are finding ways to turn new technologies into workable solutions to this serious problem.

Behind the scenes, our Bank also helps the Federal Reserve System maintain and enhance the application of technology to its business processes. We oversee the System's infrastructure for e-mail, videoconferencing, collaborative systems, and important aspects of information security.

# forward: to learn and to lead

## TO LEAD

As we increase our knowledge, we increase our capacity and propensity to lead. The Philadelphia Fed has taken a leadership role in a number of important Federal Reserve System initiatives, as well as pursuing some initiatives of its own here in the District.

This past year, our Bank had the opportunity to help develop and implement major changes in the Fed's discount window facility. These changes make it easier for banks in sound financial condition to obtain short-term loans from the Federal Reserve.

We also contributed to a broad review of the Fed's check clearing operations that led to a substantial restructuring and consolidation of processing sites. The result is a more efficient

In 2002, we also expanded our outreach to consumers of financial services in the District. Educational programs developed and promoted by the Philadelphia Fed help consumers make better financial decisions. In low- and moderate-income communities — often targets of unscrupulous business practices — we help people understand risks and evaluate alternatives. In District classrooms, we help young people understand the workings of the economy and the financial system in which they are just beginning to participate.





# STRATEGY FOR CHANGING TIMES

Through learning and leadership, we will do our part to advance the Fed's mission of fostering a sound financial system and a healthy economy.

In addition, we started a new project to broaden our public outreach, taking advantage of our unique location on Independence Mall. Our financial exhibit, Money in Motion, will open in July 2003. Using technology and interactive displays, visitors will learn about the country's financial history, as well as the history of the Federal Reserve System and its unique role in the nation's economy.

## LOOKING AHEAD

As we move into 2003, I am optimistic about the future. I see this year as one in which the economic recovery gains momentum, positioning our nation for a period of sustained economic expansion. Indeed, the ultimate drivers of healthy growth — technology, productivity, and globalization — are very much in place. Despite near-term uncertainty, people have confidence in our economy's long-term potential. Indeed, this confidence itself bolsters growth and ensures our ability to reach that potential.

The future of the Third District economy is equally promising. Over the past several decades,

our District has evolved into a microcosm of the national economy, and it now tracks national economic developments quite closely. So, I expect our region to be a full participant in the national economic expansion that lies ahead.

The banks of the Third District are positioned to support that growth. They fared well through the recession and the early stages of this recovery. Through prudent risk management and responsiveness to shifting customer demands, they have performed admirably in very challenging times. I am confident they have the capacity to meet District demands for credit and other financial services in the months and years ahead.

Here at the Philadelphia Fed, we look forward to the new challenges and new opportunities changing times will bring. Through learning and leadership, we will do our part to advance the Fed's mission of fostering a sound financial system and a healthy economy.

## BOARD OF DIRECTORS

Recent events remind us about the important role that boards of directors play in guiding organ-

izations. Reserve Bank boards of directors not only oversee the operations of the Reserve Bank, but they also contribute to the formulation of Fed policy on behalf of the District. It is a responsibility they take seriously and perform admirably. So, I want to acknowledge recent changes to the board of directors of the Federal Reserve Bank of Philadelphia:

Glenn A. Schaeffer, president emeritus of the Pennsylvania Building and Construction Trades Council, has been appointed chairman of the board, and Ronald J. Naples, chairman and CEO of Quaker Chemical Corporation, was appointed deputy chairman.

We are grateful for the guidance provided by two directors who completed their terms of service last year: our former chairman, Charisse R. Lillie, partner at Ballard Spahr Andrews & Ingersoll, and Frank Kaminski, Jr., chairman, president, and CEO of Atlantic Central Bankers Bank.

We welcome our two new board members: Garry L. Maddox, CEO of A. Pomerantz & Company, and Kenneth R. Shoemaker, president and CEO of Orrstown Bank. We look forward to the insights they will surely provide.

In addition, Rufus A. Fulton, Jr., chairman and CEO of Fulton Financial Corporation, has been reappointed to represent the Third District on the Federal Advisory Council to the Board of Governors.

On behalf of all of us here at the Philadelphia Fed, I thank them for their leadership and their commitment to public service.

## CLOSING THOUGHTS

In closing, and in light of our country's continued state of heightened security awareness, it is important to stress that we stand ready to maintain the integrity of the financial system — to supply liquidity, assist financial institutions in need, and maintain the payments system.

As part of the Federal Reserve System, the Philadelphia Fed is an organization with a clear calling to public service. We remain a high quality provider of central bank services and continue our quest to be broadly recognized as an important center of central bank knowledge and capability.

As the year 2002 so clearly demonstrated, times change and our strategies must evolve. But our focus on excellence remains constant. Looking ahead, we will continue to foster an environment of strength and growth for our region's economy. ■



Anthony M. Santomero  
President  
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