

Statement of Auditor Independence

The firm engaged by the Board of Governors for the audits of the individual and combined financial statements of the Reserve Banks for 2005 was PricewaterhouseCoopers LLP (PwC). Fees for these services totaled \$4.6 million. To ensure auditor independence, the Board of Governors requires that PwC be independent in all matters relating to the audit. Specifically, PwC 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 2005, the Bank did not engage PwC for any material advisory services.

Financial Reports

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Letter to Directors

FEDERAL RESERVE BANK OF PHILADELPHIA



FEDERAL RESERVE BANK
OF PHILADELPHIA

March 2, 2006

To the Board of Directors

The management of the Federal Reserve Bank of Philadelphia ("FRBP") 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, 2005 (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 ("Manual"), and as such, include amounts, some of which are based on judgments and estimates of management. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the Manual and include all disclosures necessary for such fair presentation.

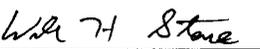
The management of the FRBP is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board 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.

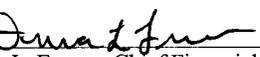
Even an effective process of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements.

The management of the FRBP 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, we believe that the FRBP 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 Philadelphia

by 
Anthony M. Santomero, President

by 
William H. Stone, First Vice President

by 
Donna L. Franco, Chief Financial Officer

Report of Independent Accountants

FEDERAL RESERVE BANK OF PHILADELPHIA



PricewaterhouseCoopers LLP
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Report of Independent Accountants

To the Board of Directors of the
Federal Reserve Bank of Philadelphia

We have examined management's assertion, included in the accompanying Management Assertion, that the Federal Reserve Bank of Philadelphia ("FRBP") maintained effective internal control over financial reporting and the safeguarding of assets as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRBP's management is responsible for maintaining effective internal control over financial reporting and safeguarding of assets. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing 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 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 FRBP maintained effective internal control over financial reporting and over the safeguarding of assets as of December 31, 2005 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

This report is intended solely for the information and use of management and the Board of Directors and Audit Committee of FRBP, and any organization with legally defined oversight responsibilities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, stylized font.

March 8, 2006
Washington D.C.

Report of Independent Auditors

FEDERAL RESERVE BANK OF PHILADELPHIA



PricewaterhouseCoopers LLP
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Report of Independent Auditors

To the Board of Governors of the Federal Reserve System
and the Board of Directors of the Federal Reserve
Bank of Philadelphia

We have audited the accompanying statements of condition of the Federal Reserve Bank of Philadelphia (the "Bank") as of December 31, 2005 and 2004, and the related statements of income and changes in capital for the years then ended, which have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 described in Note 3, these 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 of America.

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, 2005 and 2004, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, stylized font.

March 8, 2006
Washington D.C.

Statements of Condition

FEDERAL RESERVE BANK OF PHILADELPHIA

As of December 31, 2005 and December 31, 2004 (in millions)

	2005	2004
ASSETS		
Gold certificates	\$ 432	\$ 382
Special drawing rights certificates	83	83
Coin	34	56
Items in process of collection	586	360
Loans to depository institutions	-	5
U.S. government securities, net	26,613	21,581
Investments denominated in foreign currencies	473	624
Accrued interest receivable	207	151
Interdistrict settlement account	6,148	4,007
Bank premises and equipment, net	75	76
Interest on Federal Reserve notes due from U.S. Treasury	29	-
Other assets	103	74
Total assets	\$ 34,783	\$ 27,399
LIABILITIES AND CAPITAL		
Liabilities:		
Federal Reserve notes outstanding, net	\$ 31,296	\$ 24,725
Securities sold under agreements to repurchase	1,082	916
Deposits:		
Depository institutions	485	603
Other deposits	4	1
Deferred credit items	363	490
Interest on Federal Reserve notes due U.S. Treasury	-	27
Accrued benefit costs	43	42
Other liabilities	22	7
Total liabilities	33,295	26,811
Capital:		
Capital paid-in	744	294
Surplus	744	294
Total capital	1,488	588
Total liabilities and capital	\$ 34,783	\$ 27,399

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

Statements of Income

FEDERAL RESERVE BANK OF PHILADELPHIA

For the years ended December 31, 2005 and December 31, 2004 (in millions)

	2005	2004
Interest income:		
Interest on U.S. government securities	\$ 958	\$ 662
Interest on investments denominated in foreign currencies	7	8
Total interest income	965	670
Interest expense:		
Interest expense on securities sold under agreements to repurchase	28	9
Net interest income	937	661
Other operating income (loss):		
Income from services	-	38
Compensation received for check services provided	25	-
Reimbursable services to government agencies	25	21
Foreign currency gains (losses), net	(70)	36
Other income	5	3
Total other operating income (loss)	(15)	98
Operating expenses:		
Salaries and other benefits	81	73
Occupancy expense	10	10
Equipment expense	11	13
Assessments by the Board of Governors	34	34
Other expenses	37	27
Total operating expenses	173	157
Net income prior to distribution	\$ 749	\$ 602
Distribution of net income:		
Dividends paid to member banks	\$ 31	\$ 17
Transferred to surplus	450	35
Payments to U.S. Treasury as interest on Federal Reserve notes	268	550
Total distribution	\$ 749	\$ 602

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

Statements of Changes in Capital

FEDERAL RESERVE BANK OF PHILADELPHIA

For the years ended December 31, 2005 and December 31, 2004 (in millions)

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 2004 (5.2 million shares)	\$ 258	\$ 259	\$ 517
Transferred to surplus	-	35	35
Net change in capital stock issued (0.7 million shares)	36	-	36
Balance at December 31, 2004 (5.9 million shares)	\$ 294	\$ 294	\$ 588
Transferred to surplus	-	450	450
Net change in capital stock issued (9.0 million shares)	450	-	450
Balance at December 31, 2005 (14.9 million shares)	\$ 744	\$ 744	\$ 1,488

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