



TRANSITIONS *and* ACCOMPLISHMENTS

The year 2006 was marked by operational successes and major changes at the Philadelphia Fed, but leadership was the most important transition the Bank experienced. Charles I. Plosser became the Bank's 10th chief executive in August of last year. In his first annual report message as president, he talks about his background, his philosophy of leadership, and his goals for the Federal Reserve Bank of Philadelphia.

This is my first annual report message to you as president of the Federal Reserve Bank of Philadelphia. I joined the Bank last August, after spending nearly 30 years as a professor of economics and more than a decade as a business school dean at the University of Rochester. The opportunity to lead such a high-caliber institution as the Philadelphia Fed while retaining my economic roots is truly, for me, the best of both worlds.

My interest in central banking and the Federal Reserve System has spanned my career. As an academic, I had

monetary policy and more broadly to the mission of the Federal Reserve. It is a privilege I greatly value.

Goals for the Bank

One of my goals as president of the Bank is to maintain and enhance Philadelphia's leadership role in the Federal Reserve System and the Third Federal Reserve District. I believe that if we here at the Philadelphia Fed want to be leaders, we must be innovators. Innovation is the best path to ensuring our reputation as one of the outstanding Banks in the Federal Reserve System. What is the best way to

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the opportunity to analyze and critique the actions of the Federal Reserve and other central banks with an outsider's perspective. People often ask me if my views have changed now that I am on the inside. Truthfully, they have not. Economic science helps us understand the way the world works, and good economic analysis should be independent of one's vantage point. What has changed is that now I have the privilege to contribute in a meaningful way to

become innovators? I believe it boils down to three main elements.

First, we must focus on hiring and retaining talented employees and equipping them with the skills and flexibility they need to be successful innovators. Second, we must create an environment that empowers employees to use their talents. A key component of empowerment is delegating

decision-making. Delegating responsibility — and accountability — also builds skills and develops future leaders. Third, we need the appropriate infrastructure to support innovation. Infrastructure means more than just physical capital. More broadly, supporting and encouraging a decentralized organization is an important part of developing the right infrastructure. If we have these three elements in place, we will encourage innovation and we will be

accomplished some truly remarkable things. I have no doubt that together we will continue to succeed in carrying out the Fed's mission: conducting the nation's monetary policy, ensuring a sound and accessible banking system, and maintaining public confidence in all forms of payments.

Board Contributions

In my time here, I have quickly gained a keen

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well positioned to seize opportunities for leadership when they come along.

Our Accomplishments, Our Future

Of course, we have already been innovative here in Philadelphia. The list of accomplishments in 2006 supports that statement. The three major undertakings of last year, which you will read about elsewhere in this annual report, speak to the abilities and creativity of our employees.

In fact, I am deeply impressed by the dedication and integrity exhibited by the staff of this outstanding institution. Thanks to them, this Bank has

appreciation for the contribution of our Board of Directors. Throughout all our transitions and accomplishments, their support is always highly valued.

We offer our sincere gratitude to two members of our Board who have completed their service with us: Audrey S. Oswald, former president and CEO of Resorts Atlantic City, and Eugene W. Rogers, CEO and director of Newfield National Bank. Their advice and guidance on our Board will be missed.

We are pleased to report that Doris M. Damm, president and CEO of ACCU Staffing Services,

has been re-appointed chairman of the Board of Directors, and William F. Hecht, retired chairman, president, and CEO of PPL Corporation, has been re-appointed deputy chairman of the Board of Directors.

We also welcome our newest Board members and look forward to their insights and counsel. Michael F. Camardo, retired executive vice president of Lockheed Martin Information & Technology Services, and Aaron L. Groff, Jr., chairman, president, and CEO of Ephrata National Bank, both joined our Board in 2007, bringing a wealth of experience.

Let me also recognize that the Board has re-appointed Ted Cecala, chairman and CEO of Wilmington Trust Company, to represent the Third District on the Federal Advisory Council in 2007.

Concluding Thoughts

The transitions and accomplishments detailed in this annual report are examples of how far our Bank can reach when we empower our employees to implement ideas, give them flexibility, and encourage them to be creative. Supporting such an environment is essential to our goal of enhancing our capabilities and contributions to the mission of the Federal Reserve and firmly establishing the Philadelphia Reserve Bank as a center of excellence.

Again, I want to say how pleased I am to be part of the Philadelphia Fed community. I look with great anticipation toward building on the momentum already so capably begun here, and I look forward to working with our many constituents throughout the Third District.

Charles I. Plosser
President
April 2007