

A MESSAGE FROM PRESIDENT PLOSSER

Our Vision

At the Philadelphia Fed, we believe that in the current financial environment, it is vital to think creatively and find innovative solutions to problems. With this in mind, our Bank is proud to introduce a new vision statement:

The Federal Reserve Bank of Philadelphia will be widely recognized as a leader and innovator in central bank knowledge and service.

We have refined our vision to include the significance of innovation and leadership in the operation of this Bank. In last year's annual report, I said that to be leaders, we must be innovators. This message still holds true, since innovation is an important element in creating and sustaining a world-class institution.

Consistent with this vision, our Bank worked throughout the year on many new initiatives and contributed to a number of System projects. We have continued our work to consolidate our check processing business, and our Bank was chosen as one of four remaining check processing sites in the Federal Reserve System. We were selected to lead a major endeavor for the U.S. Treasury's collateral management and monitoring business. We also began the process of building a new off-site screening facility to ensure the safety and security of our Bank. In the pages that follow, you will learn additional details about these efforts.

Commitment and Credibility

This year's annual report also includes a new feature: an essay about the debate over rules versus discretion in monetary policymaking, which I co-authored with Vice President and Senior Economic Policy Advisor Michael Dotsey. This essay explores the benefits to the economy when monetary policy makes and fulfills promises to maintain low inflation. Rather than constraining policy, honoring such promises enables monetary policy to attain better economic outcomes than those achieved by a discretionary policy regime that does not make commitments and thus cannot anchor the public's expectations of future inflation.

2008: Philadelphia's Role on the FOMC

Federal Open Market Committee (FOMC) meetings involve intense deliberation and consensus-building on the part of all members. The analysis and viewpoints of each Committee member are influential and play a key role in monetary policy decisions. All voices matter.

But at the end of the meeting, there must be a vote on the proposed decision and the wording of the policy statement. While all seven Fed Governors vote at each meeting, only five of the 12 Reserve Bank presidents vote at a meeting. The president of the New York Fed is always a voting member, and the other Bank presidents vote on a rotating basis. The Philadelphia Fed is a voting member in 2008.

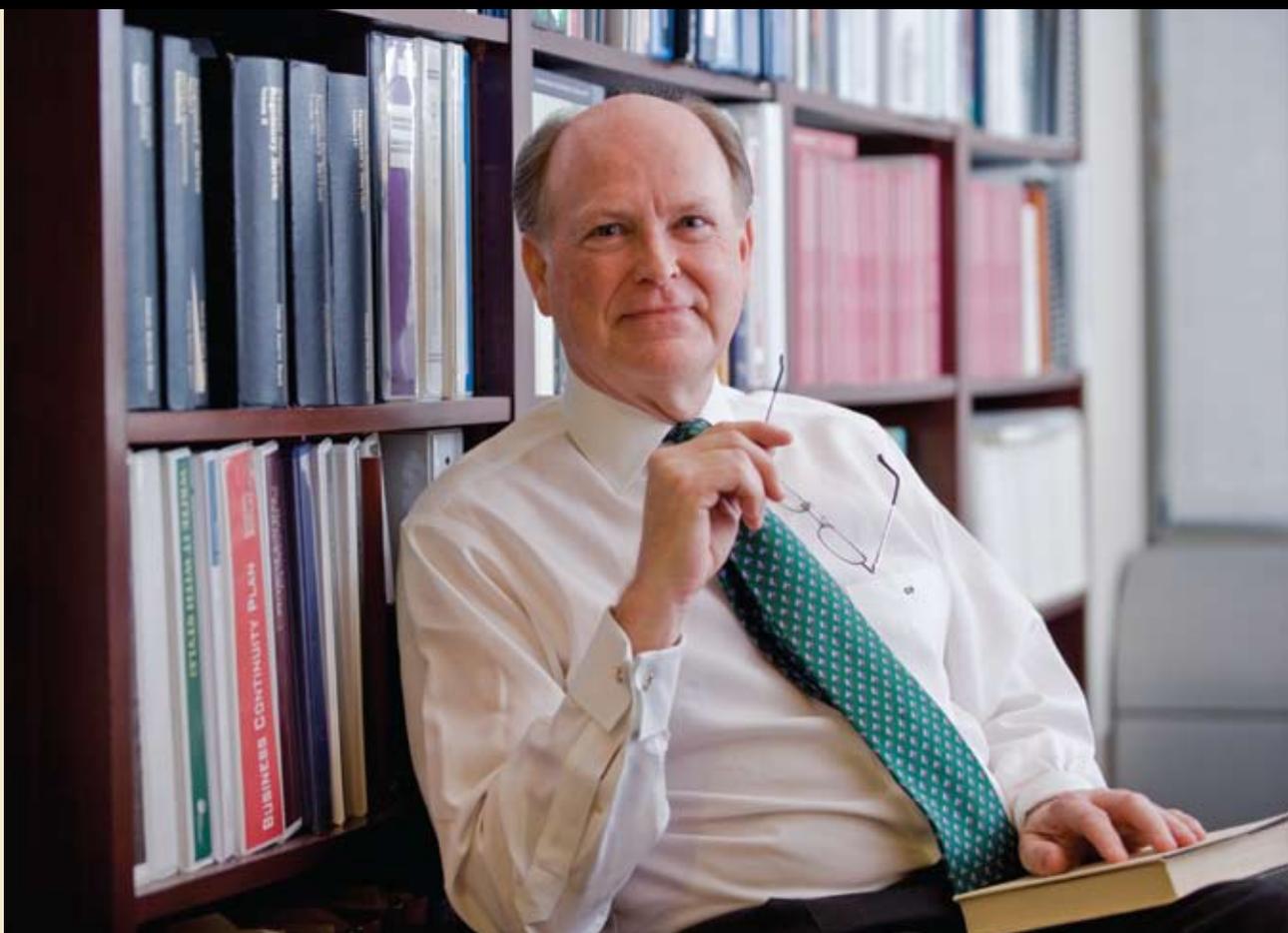
The Committee's ability to make thoughtful and sound policy choices is greatly strengthened by the interaction of members with different perspectives. I am fond of recounting the words of journalist Walter Lippman, who said, "Where all men think alike, no one thinks very much."

The Fed's decision last November to provide quarterly releases of information on the economic projections of the Fed presidents and Governors is a major step in providing a clearer picture of our deliberations. I see this as a very important step in making the central bank's decisions more transparent and the central bank more accountable, which is beneficial to the functioning of the economy.

Board of Directors

As always, the guidance and insight of our board of directors are invaluable to our Bank. We offer sincere gratitude to members of our board who have completed their terms of service: Doris Damm, president and CEO of ACCU Staffing Services; P. Coleman Townsend, Jr., chairman and CEO of Townsends, Inc.; and Wayne R. Weidner, chairman of National Penn Bank. Their counsel will be missed.

We are pleased to report that William F. Hecht, retired chairman, president, and CEO of PPL Corporation, has been appointed chairman of the board of directors, and Charles P. Pizzi, president and



CEO of Tasty Baking Company, has been appointed deputy chairman.

We welcome our newest board members and look forward to their contributions: Keith S. Campbell, chairman of Mannington Mills, Inc.; Ted Cecala, chairman and CEO of Wilmington Trust Corporation; and Jeremy Nowak, president and CEO of The Reinvestment Fund.

Thanks to Employees

Let me conclude by expressing sincere thanks to the dedicated employees of the Philadelphia Fed, who make our Bank's many successes possible.

We want to especially recognize our Retail Payments staff, who continue to do excellent work managing the evolution toward electronic payments. They have adapted admirably to the increased responsibility for servicing institutions as a result of the consolidation of Federal Reserve check operations. Also

deserving of our thanks are those in Cash Services, who have worked to meet the challenges of volume fluctuations with the implementation of pricing for cross-shipped currency. Finally, we appreciate the efforts of those involved in the planning for our new off-site screening facility, including our Facilities and Legal departments.

These employees — and all of our Philadelphia Fed employees — daily reaffirm our Bank's commitment to credibility and excellence.

Charles I. Plosser
President and CEO
April 2008