Appendix 1: Materials used by Mr. Kos
Implied Rates on Eurodollar Futures Contracts
December 31, 2004 – March 18, 2005

2-Year Treasury Yield and Target Fed Funds Rate
June 15, 2004 - March 18, 2005

10-Year Treasury Yield
June 15, 2004 – March 18, 2005

Yield Spread Between 2- and 10-Year Treasury Notes
December 31, 2004 – March 18, 2004
CRB Commodities Index
January 1, 2004 – March 18, 2005

Crude Oil Futures Curve
(West Texas Intermediate)

Inflation Expectation Measures Derived from TIPS
January 1, 2004 – March 18, 2005

Source: Barclays, FRBNY Research
Investment Grade Corporate Debt Spread  
July 1, 2004 – March 18, 2005

High Yield Debt Spread  
July 1, 2004 – March 18, 2005

Investment Grade Corporate Index OAS

High Yield Bond Index OAS

Investment Grade Spreads by Rating Category  
July 1, 2004 – March 18, 2005

Select Investment Grade Sector and Company Spreads  
July 1, 2004 – March 18, 2005

BBB

AAA

GM 2013 Bond

GMAC 2014 Bond

Automotive

Industrials

Financials

Source: Lehman Brothers

Source: Merrill Lynch

Source: Lehman Brothers

Source: Lehman Brothers
Emerging Market Debt Spreads
July 1, 2004 – March 18, 2005

Select Emerging Market Currencies: Performance Against the Dollar

Changes in Select Emerging Market Equity Indices
Implied Volatility on S&P500 Index
January 1, 2004 – March 18, 2004

Implied Volatility of Major Currency Pairs
January 1, 2004 – March 18, 2005

Implied Swaption Volatility
January 1, 2004 – March 18, 2005
Appendix 2: Materials used by Mr. Reinhart
Exhibit 1
Recent Market Developments

Expected Federal Funds Rates Based on Federal Funds Futures*

- Recent: March 21, 2005
- Last FOMC: February 1, 2005

Basis points

<table>
<thead>
<tr>
<th>Mar 22</th>
<th>May 3</th>
<th>Jun 30</th>
<th>Aug 9</th>
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<tbody>
<tr>
<td>2.6</td>
<td>2.9</td>
<td>3.2</td>
<td>3.6</td>
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*Based on federal funds futures rates at the close of trading. Estimates assume a 1.0 basis point per month term premium and zero probability of intermeeting moves.

Implied Distribution of Federal Funds Rate About 6 Months Ahead*

- March 21, 2005
- February 1, 2005

Basis points

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<th>1.75</th>
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<th>2.75</th>
<th>3.25</th>
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<th>4.75</th>
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<td>30</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
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*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a risk premium), as implied by options on eurodollar futures contracts.

Eurodollar Implied Volatility 120 Days Ahead

Average Absolute Daily Change in the Expected Federal Funds Rate

Basis points

<table>
<thead>
<tr>
<th>3</th>
<th>6</th>
<th>9</th>
<th>12</th>
<th>15</th>
<th>18</th>
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<tbody>
<tr>
<td>0.15</td>
<td>0.25</td>
<td>0.35</td>
<td>0.45</td>
<td>0.55</td>
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Corporate Yields

Percent

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<thead>
<tr>
<th>7.9</th>
<th>7.8</th>
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<th>7.5</th>
<th>7.4</th>
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<tr>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
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</table>

Wilshire 5000

Index: 8/31/04 = 100

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<th>112</th>
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<th>118</th>
<th>120</th>
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<tr>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
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<td>Daily</td>
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</table>

Major Currencies Index

Index: 8/31/04 = 100

<table>
<thead>
<tr>
<th>98</th>
<th>100</th>
<th>102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
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</tbody>
</table>

*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a risk premium), as implied by options on eurodollar futures contracts.
Exhibit 2
The Case for Tightening 25 Basis Points

Output Gap

Core PCE Inflation*

Values from Policy Rules and Futures Markets

Range of Estimated Equilibrium Real Rates

An explanatory note is provided in Chart 6 of the Bluebook.

An explanatory note is provided in Chart 5 of the Bluebook.
Exhibit 3
The Policy Outlook

Expected Federal Funds Rates*

Ten-year-ahead Expected Short Rate*

Expected Federal Funds Rates* - Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

Ten-year-ahead Expected Short Rate* - Based on an estimated three-factor model of the term structure.

Blue Chip Three-month Treasury Bill Forecast, Six-to-Ten Years Ahead

Oil Price and NFIB Survey Results

Inflation Compensation

PCE Prices Excluding Food and Energy*

*Confidence intervals based on FRB/US stochastic simulations.

*Based on an estimated three-factor model of the term structure.
February 2005 FOMC Statement

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-1/2 percent.

The Committee believes that, even after this action, the stance of monetary policy remains 
accommodative and, coupled with robust 
underlying growth in productivity, is providing ongoing support to economic activity. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually. Inflation and longer-term inflation expectations remain well contained.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.
<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>February FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-1/2 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-3/4 percent. This action brings the cumulative increase since June 2004 to 1-3/4 percentage points.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 50 basis points to 3 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-1/2 percent.</td>
<td></td>
</tr>
<tr>
<td>2. The Committee believes that, even after this action, the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>Output evidently continues to grow appears to continue to be growing at a solid moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually.</td>
<td>[no change]</td>
<td>[no change]</td>
<td></td>
</tr>
<tr>
<td>3. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions continue to improve gradually.</td>
<td>Although month-to-month movements in inflation have been volatile of late, underlying inflation and longer-term inflation expectations remain well contained.</td>
<td>Inflation and longer-term inflation expectations remain well contained, pressures on inflation have picked up modestly in recent months and pricing power is more evident. The rise in energy prices, however, has not notably fed through to wages or core consumer prices.</td>
<td>While inflation and longer-term inflation expectations remain well contained, pressures on inflation have intensified in recent months.</td>
<td></td>
</tr>
<tr>
<td>4. Inflation and longer-term inflation expectations remain well contained.</td>
<td></td>
<td>Inflation and longer-term inflation expectations remain well contained, pressures on inflation have picked up modestly in recent months and pricing power is more evident. The rise in energy prices, however, has not notably fed through to wages or core consumer prices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal.</td>
<td>The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal that, if the current target for the federal funds rate were maintained for the next few quarters, it is more likely than not that output would grow at a pace faster than is sustainable and that inflation pressures would pick up.</td>
<td>The Committee perceives that, with appropriate policy action, the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be should be kept roughly equal.</td>
<td>The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal that, if the current target for the federal funds rate were maintained for the next few quarters, it is more likely than not that output would grow at a pace faster than is sustainable and that inflation pressures would pick up.</td>
<td></td>
</tr>
<tr>
<td>6. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.</td>
<td>With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability. However, the pace at which policy accommodation will be removed to contain those risks will depend on economic prospects.</td>
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