

Federal Home Loan Bank of San Francisco
First Quarter Report

To Our Members

During the first quarter of 2000, the Bank continued to achieve its public policy mission of helping members meet the credit needs of their communities. Members increased their advances by \$5.6 billion, or 6%, relative to yearend 1999, bringing total advances outstanding to \$96.1 billion at March 31, 2000. Most of the increase was in long-term, adjustable rate advances. Once again, the Bank's largest members accounted for most of the growth.

Total assets grew to \$125.3 billion, an increase of 8% from yearend 1999. In addition to extending more credit to members, the Bank took advantage of some favorable investment opportunities, particularly in the mortgage-backed securities market, to improve earnings.

Net interest income for the first quarter was \$126.9 million, an increase of 43% over the year-earlier period. This increase was due to the significant growth in advances, investments, and capital, combined with higher interest rates and spreads.

Net income totaled \$86.0 million for the quarter, an increase of 4% relative to the same period in 1999. This increase did not mirror the increase in net interest income for two primary reasons. First, net income in the first quarter of 1999 was boosted by a one-time gain of \$10.5 million from the reversion of surplus assets from the Bank's pension plan. Second, as a result of the Federal Home Loan Bank System Modernization Act of 1999, beginning in 2000 the REFCORP assessment is classified as an expense and is included on the income statement. In 1999 and prior years, the REFCORP assessment was a charge to capital and did not appear on the income statement. The REFCORP assessment for the first quarter of 2000 was \$21.5 million, reflecting an assessment rate of 20% of net earnings after AHP assessments and operating expenses. The REFCORP assessment for the first quarter of 1999 was \$13.3 million, reflecting an assessment rate of 16% of net earnings after AHP assessments and operating expenses. After adjusting for the effect of the one-time gain and the REFCORP assessment, net income for the first quarter of 1999 was \$61.5 million, and the year-over-year increase in net income was 40%. The same two factors primarily account for the decline in the Bank's adjusted return on equity for the first quarter from 7.51% in 1999 to 6.29% in 2000. After adjusting for

the effect of these factors, the Bank's adjusted return on equity for the first quarter of 1999 was 5.58%.

For the first quarter of 2000, the Bank paid a quarterly dividend rate of 8.28% (annualized). In addition to authorizing the payout of all current period earnings available for dividends, which equaled \$86.7 million, the Bank's Board of Directors authorized the payout of the Bank's unrestricted retained earnings as of December 31, 1999, which equaled \$25.4 million, adding 1.87% to the annualized dividend yield. The Board took this step because it is unclear how existing retained earnings will be treated under future capital regulations implementing the Modernization Act. Dividends for the remainder of 2000 are expected to be paid primarily out of current period earnings.

The Bank's future capital structure is of great importance because it will affect every aspect of a member's relationship with the Bank. We are currently working on a variety of projects related to capital planning and will communicate the results of our efforts to you over the next several months.

The unrestricted retained earnings paid out as first quarter dividends were originally retained to provide the Bank with financial flexibility and in anticipation of the possible effect of implementing SFAS No. 133. The full impact of SFAS No. 133 on the Bank will not be known until January 2001, but the Bank expects increased volatility in earnings. Because the payout of these unrestricted retained earnings reduced total retained earnings, the Bank's retained earnings may not be sufficient to absorb the full impact of SFAS No. 133, which may reduce future dividends in some periods.

During March 2000, the Bank's Board took another significant action—authorizing the Bank's participation in the Mortgage Partnership Finance[®] Program. We expect that our members will soon have a new option for funding their mortgages, one that keeps the full economic benefit of originating and owning mortgages within the cooperative structure of the Federal Home Loan Bank System.

Sincerely,



Dean Schultz
President and Chief Executive Officer

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Statements of Condition

(In thousands—except par value)	March 31, 2000 (Unaudited)	December 31, 1999	March 31, 1999 (Unaudited)
Assets			
Cash and due from banks	\$ 3,512	\$ 1,424	\$ 4,440
Interest-bearing deposits in banks	1,026,000	1,702,000	1,047,000
Securities purchased under agreements to resell	1,911,000	2,558,885	1,562,994
Federal funds sold	10,739,000	8,636,000	4,346,000
Investments held to maturity	13,422,330	10,382,029	8,712,140
Advances to members	96,098,849	90,513,829	70,206,888
Accrued interest receivable	2,094,811	2,099,622	1,435,504
Bank premises and equipment, net	4,389	4,324	72,631
Other assets	14,365	13,934	34,743
Total Assets	<u>\$125,314,256</u>	<u>\$115,912,047</u>	<u>\$ 87,422,340</u>
Liabilities and Capital			
Liabilities:			
Consolidated obligations, net:			
Bonds	\$ 81,082,937	\$ 76,725,689	\$ 70,979,354
Discount notes	32,636,990	30,676,746	9,102,877
Total consolidated obligations	<u>113,719,927</u>	<u>107,402,435</u>	<u>80,082,231</u>
Deposits:			
Demand and overnight	330,712	303,143	294,720
Term	24,037	23,810	43,920
Total deposits	<u>354,749</u>	<u>326,953</u>	<u>338,640</u>
Borrowings:			
Securities sold under agreements to repurchase	400,000	—	—
Other	—	—	6,111
Total borrowings	<u>400,000</u>	<u>—</u>	<u>6,111</u>
Accrued interest payable	2,544,349	2,606,541	1,882,967
Affordable Housing Program	92,324	90,892	85,992
Payable to REFCORP	21,491	11,184	13,263
Other liabilities	2,334,639	35,643	206,072
Total Liabilities	<u>119,467,479</u>	<u>110,473,648</u>	<u>82,615,276</u>
Capital:			
Capital stock outstanding (\$100 par value)	5,808,865	5,374,359	4,762,495
Retained earnings:			
Unrestricted retained earnings	78	25,408	7,393
Restricted retained earnings	37,834	38,632	37,176
Total retained earnings	<u>37,912</u>	<u>64,040</u>	<u>44,569</u>
Total Capital	<u>5,846,777</u>	<u>5,438,399</u>	<u>4,807,064</u>
Total Liabilities and Capital	<u>\$125,314,256</u>	<u>\$115,912,047</u>	<u>\$ 87,422,340</u>

The financial information as of March 31, 2000 and 1999, is unaudited and should be read in conjunction with the audited financial statements for the year ended December 31, 1999, and the accompanying notes thereto. Certain amounts in the 1999 financial statements have been reclassified to conform with the 2000 presentation. The audited financial statements may be obtained by calling 415.616.2610.

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Statements of Income

(In thousands)	Three Months Ended	
	March 31, 2000 (Unaudited)	March 31, 1999 (Unaudited)
Interest Income:		
Advances to members	\$ 1,384,817	\$ 822,299
Interest-bearing deposits in banks	23,319	10,333
Securities purchased under agreements to resell	50,472	29,499
Federal funds sold	135,840	78,447
Investments held to maturity	160,136	119,546
Loans to other Federal Home Loan Banks	85	143
Total Interest Income	1,754,669	1,060,267
Interest Expense:		
Consolidated obligations	1,619,094	966,176
Deposits	2,917	3,848
Securities sold under agreements to repurchase	5,680	1,495
Borrowings from other Federal Home Loan Banks	—	55
Other borrowings	29	104
Total Interest Expense	1,627,720	971,678
Net Interest Income	126,949	88,589
Other Income:		
Prepayment fees, net	71	37
Services to members	213	196
Gain on the spin-off/termination involving the Bank's Cash Balance Plan	—	10,507
Gain on sale of building	518	—
Other, net	370	1,406
Total Other Income	1,172	12,146
Other Expense:		
Operating expense	9,684	8,729
Federal Housing Finance Board and Office of Finance expenses	1,432	1,386
Total Other Expense	11,116	10,115
Income Before Assessments	117,005	90,620
REFCORP assessments	21,491	—
Affordable Housing Program assessments	9,551	7,736
Total Assessments	31,042	7,736
Net Income	\$ 85,963	\$ 82,884
Financial Ratios (Annualized)		
	Three Months Ended	
	March 31, 2000	March 31, 1999
Adjusted Return on Equity*	6.29%	7.51%
Dividend Rate	8.28%	5.29%

*Adjusted financial performance measures reflect the recognition of advance prepayment fees over the periods remaining through the advances' original maturity dates rather than at the time of prepayment. Extraordinary and other nonrecurring gains and losses are similarly adjusted to provide financial performance measures that are more meaningful when comparing results from other time periods.

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