Federal Home Loan Bank of San Francisco
Third Quarter Report

To Our Members

During the third quarter of 2000, our members continued to increase their Bank borrowings to meet the credit needs of their communities. As of September 30, 2000, total advances reached $105.5 billion, an increase of $4.3 billion, or 4%, from June 30, 2000, and $15.0 billion, or 17%, from December 31, 1999.

Total assets grew to $135.5 billion, increasing $6.1 billion, or 5%, during the quarter, and $19.6 billion, or 17%, relative to yearend 1999. Investments held to maturity grew $4.2 billion during the first nine months of the year. Most of this growth occurred in the first quarter, when the Bank took advantage of some favorable investment opportunities to improve earnings.

Net interest income for the third quarter was $144.5 million, an increase of 44% 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 $97.9 million for the quarter, an increase of 16% relative to the same period in 1999. This increase was significantly less than the increase in net interest income because the REFCORP assessment is now classified as an expense. Before 2000, the REFCORP assessment was a charge to capital.

The REFCORP assessment for the quarter was $24.5 million, reflecting a rate of 20% of net earnings after AHP assessments and operating expenses. The assessment for the third quarter of 1999 was $11.5 million, reflecting a rate of 14% of net earnings after AHP assessments and operating expenses. After subtracting the REFCORP assessment for the third quarter of 1999, net income was $72.6 million, and the year-over-year increase in net income was 35%.

The change in the way the REFCORP assessment is classified and the increase in the assessment rate also account for the decline in the Bank's adjusted return on equity for the third quarter from 6.93% in 1999 to 6.57% in 2000. After subtracting the REFCORP assessment for the third quarter of 1999 from adjusted net income, the Bank's adjusted return on equity for that quarter was 5.98%.

The Bank paid a quarterly dividend rate of 6.64% (annualized) for the third quarter, representing all current period earnings available for dividends, which equaled $99.0 million. When SFAS No. 133 becomes effective in January 2001, the Bank expects to recognize in other comprehensive income, a component of capital, the remaining unamortized balance of the deferred losses from certain interest rate exchange agreements terminated by the Bank in 1998. The Bank's Board of Directors has retained approximately $17.1 million in restricted retained earnings to offset the effect of these deferred losses on capital. The full initial impact of SFAS No. 133 on the Bank will not be known until January 2001, and the Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS No. 133. As a result, the effect of SFAS No. 133 may lead to increased volatility in future dividends.

On July 12, 2000, the Federal Housing Finance Board rescinded its dividend policy, eliminating the regulatory requirement for the Dividend Stabilization Reserve (DSR). Under the previous policy, the Bank was required to retain in restricted retained earnings a DSR for that portion of income from advance prepayment fees that, if allocated on a pro-rata basis over the original term to maturity of the prepaid advances, would be allocated to future dividend periods. In addition, the DSR also included other gains and losses from the termination of interest rate exchange agreements and early retirement of consolidated obligations. In September 2000, the Bank's Board of Directors adopted a policy to continue the practice of restricting retained earnings generally consistent with the DSR effective July 1, 2000.

The third quarter was marked by extensive discussions throughout the Federal Home Loan Bank System on the Banks' future capital structure. As a result, the Finance Board extended the comment period on its proposed rule from October 11 to November 20, 2000. In addition, the Finance Board appears to be open to the emerging consensus among the Federal Home Loan Banks and their members on several key issues affecting the capital rule. To reinforce that consensus, it is important that you let the Finance Board know your views on the proposed rule by November 20th. If you have any questions about the proposed rule or the Bank's future capital structure, please contact me or your Relationship Manager.

Sincerely,

Dean Schultz
President and Chief Executive Officer

Federal Home Loan Bank of San Francisco
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Statements of Condition

(In thousands–except par value)	Sept. 30, 2000 (Unaudited)	December 31, 1999	Sept. 30, 1999 (Unaudited)
Assets			
Cash and due from banks	$ 2,353	$ 1,424	$ 1,982
Interest-bearing deposits in banks	2,848,000	1,702,000	1,622,000
Securities purchased under agreements to resell	1,095,000	2,558,885	1,708,885
Federal funds sold	8,713,000	8,636,000	7,430,000
Investments held to maturity	14,587,482	10,382,029	9,606,964
Advances to members	105,526,857	90,513,829	80,900,842
Accrued interest receivable	2,726,694	2,099,622	1,784,625
Bank premises and equipment, net	4,566	4,324	3,667
Other assets	16,130	13,934	16,880
Total Assets	$135,520,082	$115,912,047	$ 103,075,845
Liabilities and Capital			
Liabilities:			
Consolidated obligations, net:			
Bonds	$ 93,187,840	$ 76,725,689	$ 82,680,031
Discount notes	32,347,518	30,676,746	12,388,164
Total consolidated obligations	125,535,358	107,402,435	95,068,195
Deposits:			
Demand and overnight	240,243	303,143	140,836
Term	27,405	23,810	27,590
Total deposits	267,648	326,953	168,426
Borrowings:			
Other Federal Home Loan Banks	—	—	100,000
Other	—	—	25,000
Total borrowings	—	—	125,000
Accrued interest payable	3,305,857	2,606,541	2,396,303
Affordable Housing Program	102,136	90,892	90,522
Payable to REFCORP	24,486	11,184	11,538
Other liabilities	161,870	35,643	171,890
Total Liabilities	129,397,355	110,473,648	98,031,874
Capital:			
Capital stock outstanding ($100 par value)	6,097,310	5,374,359	4,986,517
Retained earnings:			
Unrestricted retained earnings	135	25,408	17,896
Restricted retained earnings*	25,282	38,632	39,558
Total retained earnings	25,417	64,040	57,454
Total Capital	6,122,727	5,438,399	5,043,971
Total Liabilities and Capital	$135,520,082	$115,912,047	$ 103,075,845

The financial information as of September 30, 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.

Federal Home Loan Bank of San Francisco
Third Quarter Report

Statements of Income

(In thousands)	Three Months Ended Sept. 30, 2000 (Unaudited)	Three Months Ended Sept. 30, 1999 (Unaudited)	Nine Months Ended Sept. 30, 2000 (Unaudited)	Nine Months Ended Sept. 30, 1999 (Unaudited)
Interest Income:				
Advances to members	$ 1,726,217	$ 1,009,263	$ 4,638,989	$ 2,736,622
Interest-bearing deposits in banks	28,945	18,748	74,506	44,556
Securities purchased under agreements to resell	4,688	24,236	77,188	68,461
Federal funds sold	153,085	91,279	418,837	237,929
Investments held to maturity	250,606	130,634	645,667	373,104
Loans to other Federal Home Loan Banks	462	11	595	384
Total Interest Income	2,164,003	1,274,171	5,855,782	3,461,056
Interest Expense:				
Consolidated obligations	2,015,695	1,171,585	5,429,918	3,171,026
Deposits	3,454	2,306	9,482	8,818
Securities sold under agreements to repurchase	300	22	11,887	2,019
Borrowings from other Federal Home Loan Banks	25	17	34	72
Other borrowings	73	69	137	319
Total Interest Expense	2,019,547	1,173,999	5,451,458	3,182,254
Net Interest Income	144,456	100,172	404,324	278,802
Other Income:				
Prepayment fees, net	66	1,133	187	2,081
Services to members	222	223	669	599
Gain on the spin-off/termination involving the Bank’s Cash Balance Plan	—	—	—	10,507
Gain on sale of building	—	—	—	3,572
Other, net	797	762	3,220	2,912
Total Other Income	1,085	2,118	4,076	19,671
Other Expense:				
Operating expense	10,789	9,347	30,572	28,007
Federal Housing Finance Board and Office of Finance expenses	1,533	1,347	4,422	4,067
Total Other Expense	12,322	10,694	34,994	32,074
Income Before Extraordinary Items and Assessments	133,219	91,596	373,406	266,399
REFCORP assessments	24,486	—	68,832	—
Affordable Housing Program assessments	10,883	8,063	30,592	23,046
Total Assessments	35,369	8,063	99,424	23,046
Income Before Extraordinary Items	97,850	83,533	273,982	243,353
Extraordinary gains on early retirement of debt	94	574	1,346	574
Net Income	$ 97,944	$ 84,107	$ 275,328	$ 243,927

Financial Ratios (Annualized)	Three Months Ended Sept. 30, 2000	Three Months Ended Sept. 30, 1999	Nine Months Ended Sept. 30, 2000	Nine Months Ended Sept. 30, 1999
Adjusted Return on Equity*	6.57%	6.93%	6.41%	7.01%
Dividend Rate	6.64%	5.41%	7.39%	5.31%

*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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