

Federal Home Loan Bank of San Francisco
2000 Fourth Quarter Report

To Our Members

The significant growth in advances during the fourth quarter of 2000 once again demonstrated the Bank's value to members as a reliable, cost-effective liquidity source. As of December 31, 2000, total advances reached a new record of \$110.0 billion, an increase of \$4.5 billion, or 4%, from September 30, 2000, and \$19.5 billion, or 22%, from December 31, 1999.

Total assets grew to \$140.2 billion, increasing \$4.7 billion, or 3%, during the quarter, and \$24.3 billion, or 21%, relative to yearend 1999. Investments held to maturity grew \$5.1 billion in 2000, as the Bank took advantage of favorable MBS investment opportunities to improve earnings.

Net interest income for the fourth quarter was \$150.3 million, an increase of 39% over the year-earlier period. This increase was due to the continued growth in advances, investments, and capital, combined with higher interest rates and spreads.

Net income totaled \$101.3 million for the quarter, an increase of 14% 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 \$25.3 million, reflecting a rate of 20% of net earnings after AHP assessments and operating expenses. The assessment for the fourth quarter of 1999 was \$11.2 million, reflecting a rate of 13% of net earnings after AHP assessments and operating expenses. After subtracting the REFCORP assessment for the fourth quarter of 1999, net income was \$77.4 million, and the year-over-year increase in net income was 31%.

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 fourth quarter from 6.84% in 1999 to 6.48% in 2000. After subtracting the REFCORP assessment for the fourth quarter of 1999 from adjusted net income, the Bank's adjusted return on equity for that quarter was 5.99%.

The Bank paid a quarterly dividend rate of 6.65% (annualized) for the fourth quarter, representing all current period earnings available for dividends, which equaled \$102.4 million. Effective January 1, 2001, as a result of SFAS No. 133, the Bank recognized 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 totaling \$17.1 million. Previously, the Bank's Board of Directors had retained \$17.1 million in restricted retained earnings to offset the effect of these deferred losses on capital. In addition, a loss of \$1.8 million, net of applicable assessments, was charged to January 2001 earnings as part of the cumulative effect of adopting SFAS No. 133. The ongoing impact of SFAS No. 133 on the Bank cannot be predicted, 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 December 20, 2000, the Federal Housing Finance Board approved a final rule implementing a new capital structure for the Federal Home Loan Banks. We were pleased that the final rule generally encompasses the goals the Bank was seeking to achieve. The rule will become effective on March 1, 2001, and we will then have 270 days to submit our own capital plan to the Finance Board. We will keep you informed of the evolution of that plan through our Capital Developments bulletins.

On December 19, 2000, U.S. Senator Dianne Feinstein (D-CA) announced the Bank's 2000 Affordable Housing Program awards at Plaza del Sol, an AHP-subsidized development for very low-income families in San Francisco. In 2000, the Bank awarded \$32.2 million in Affordable Housing Program grants to 117 rental and homeownership initiatives and \$2.4 million in Individual Development and Empowerment Account grants to 24 homeownership programs. Senator Feinstein praised the Bank, its members, and the project sponsors, saying, "The need for this kind of housing investment has never been greater than it is right now." I, too, commend our members and the sponsors for their efforts to create affordable housing and promote community economic development, and I thank all of the Bank's members for their use of the Bank's products and services to meet the credit needs of their communities.

Sincerely,



Dean Schultz
President and Chief Executive Officer

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Statements of Condition

(In thousands—except par value)	December 31, 2000 (Unaudited)	December 31, 1999
Assets		
Cash and due from banks	\$ 4,584	\$ 1,424
Interest-bearing deposits in banks	2,698,000	1,702,000
Securities purchased under agreements to resell	400,000	2,558,885
Federal funds sold	8,376,000	8,636,000
Investments held to maturity	15,524,693	10,382,029
Advances to members	110,031,641	90,513,829
Accrued interest receivable	3,136,776	2,099,622
Bank premises and equipment, net	4,326	4,324
Other assets	13,988	13,934
Total Assets	<u>\$140,190,008</u>	<u>\$115,912,047</u>
Liabilities and Capital		
Liabilities:		
Consolidated obligations, net:		
Bonds	\$ 97,365,608	\$ 76,725,689
Discount notes	32,097,431	30,676,746
Total consolidated obligations	<u>129,463,039</u>	<u>107,402,435</u>
Deposits:		
Demand and overnight	347,613	303,143
Term	28,800	23,810
Total deposits	<u>376,413</u>	<u>326,953</u>
Accrued interest payable	3,888,254	2,606,541
Affordable Housing Program	109,630	90,892
Payable to REFCORP	25,315	11,184
Other liabilities	35,212	35,643
Total Liabilities	<u>133,897,863</u>	<u>110,473,648</u>
Capital:		
Capital stock outstanding (\$100 par value)	6,267,859	5,374,359
Retained earnings:		
Unrestricted retained earnings	107	25,408
Restricted retained earnings	24,179	38,632
Total retained earnings	<u>24,286</u>	<u>64,040</u>
Total Capital	<u>6,292,145</u>	<u>5,438,399</u>
Total Liabilities and Capital	<u>\$140,190,008</u>	<u>\$115,912,047</u>

The financial information as of December 31, 2000, 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. The audited financial statements may be obtained by calling 415.616.2610.

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Statements of Income

(In thousands)	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2000 (Unaudited)	Dec. 31, 1999 (Unaudited)	Dec. 31, 2000 (Unaudited)	Dec. 31, 1999
Interest Income:				
Advances to members	\$ 1,792,360	\$ 1,233,453	\$ 6,431,349	\$ 3,970,075
Interest-bearing deposits in banks	56,571	23,910	131,077	68,466
Securities purchased under agreements to resell	16,703	42,493	93,891	110,954
Federal funds sold	130,256	116,593	549,093	354,522
Investments held to maturity	252,380	151,705	898,047	524,809
Loans to other Federal Home Loan Banks	67	16	662	400
Total Interest Income	2,248,337	1,568,170	8,104,119	5,029,226
Interest Expense:				
Consolidated obligations	2,093,984	1,457,227	7,523,902	4,628,253
Deposits	4,032	2,734	13,514	11,552
Securities sold under agreements to repurchase	—	27	11,887	2,046
Borrowings from other Federal Home Loan Banks	48	—	82	72
Other borrowings	23	28	161	347
Total Interest Expense	2,098,087	1,460,016	7,549,546	4,642,270
Net Interest Income	150,250	108,154	554,573	386,956
Other Income:				
Prepayment fees, net	205	18	392	2,099
Services to members	230	253	899	852
Gain on the spin-off/termination involving the Bank's Cash Balance Plan	—	—	—	10,507
Other, net	800	103	4,020	6,587
Total Other Income	1,235	374	5,311	20,045
Other Expense:				
Operating expense	12,246	10,825	42,818	38,832
Federal Housing Finance Board and Office of Finance expenses	1,411	1,244	5,833	5,311
Total Other Expense	13,657	12,069	48,651	44,143
Income Before Extraordinary Items and Assessments	137,828	96,459	511,233	362,858
REFCORP assessments	25,315	—	94,147	—
Affordable Housing Program assessments	11,251	8,605	41,843	31,651
Total Assessments	36,566	8,605	135,990	31,651
Income Before Extraordinary Items	101,262	87,854	375,243	331,207
Extraordinary gains on early retirement of debt	—	772	1,346	1,346
Net Income	\$ 101,262	\$ 88,626	\$ 376,589	\$ 332,553
Financial Ratios (Annualized)				
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999
Adjusted Return on Equity*	6.48%	6.84%	6.37%	6.96%
Dividend Rate	6.65%	5.50%	7.17%	5.36%

*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.

The financial information for the periods ended December 31, 2000, 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.