

Federal Home Loan Bank of San Francisco
First Quarter Report

To Our Members

The Federal Home Loan Bank of San Francisco continued to act as a significant funding source for its members during the first quarter of 2001. Although members experienced strong deposit growth during the first three months of the year, advances also grew slightly during the quarter. As of March 31, 2001, the Bank had \$111.4 billion in advances, an increase of \$1.3 billion relative to December 31, 2000. This increase included \$0.7 billion in net new advances and \$0.6 billion in fair value adjustments for hedged advances made in accordance with SFAS No. 133, which was adopted on January 1, 2001.

Total assets grew to \$144.2 billion, increasing \$4.1 billion, or 3%, relative to yearend 2000. Interest-bearing deposits in banks and securities purchased under agreements to resell grew \$1.2 billion and \$1.6 billion, respectively, during the quarter, as the Bank took advantage of favorable investment opportunities.

In accordance with SFAS No. 133, all derivatives are marked to fair value, netted by counterparty with any associated accrued interest, and included on the balance sheet as an asset when there is a net fair value gain or as a liability when there is a net fair value loss. As a result, certain amounts that had previously been included in accrued interest receivable and accrued interest payable were reclassified with their associated derivatives, resulting in decreases of \$2.4 billion and \$2.7 billion in accrued interest receivable and accrued interest payable, respectively.

Net interest income for the first quarter was \$144.2 million, an increase of \$17.2 million, or 14%, over the year-earlier period. This increase was due to higher levels of advances, investments, and capital, offset by slightly lower interest rates and spreads.

Net income totaled \$107.6 million for the quarter, an increase of \$21.6 million, or 25%, relative to the same period in 2000. In addition to the increase in net interest income, the net effect of fair value adjustments made under SFAS No. 133 was to increase net income \$6.2 million. Since this favorable effect was a matter of timing only, not a true economic gain, the Bank retained this amount in accordance with the Bank's retained earnings policy to offset the future reversal of this favorable effect. 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, which may lead to increased volatility in future dividends.

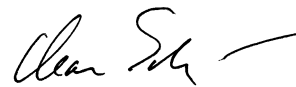
The Bank's adjusted return on equity, which excludes nonrecurring items and the effects of SFAS No. 133, was 6.53% for the first quarter of 2001, compared to 6.29% for the same period in 2000. The Bank paid a quarterly dividend rate of 6.82% (annualized) for the first quarter of 2001, compared to 8.28% (annualized) for the first quarter of 2000. The higher rate in the prior year resulted from the payout of \$25.4 million of previously restricted retained earnings, which added 1.87% to the annualized dividend yield.

In April 2001, a member of the Bank obtained an interim arbitration award of \$7.9 million against the Bank in a dispute relating to certain advance transactions. The member is seeking an additional \$2.0 million in interest, costs and fees. Under the arbitration agreement, the Bank may petition the federal district court for an independent review of the legal issues, and management is reviewing its options. Although management does not consider this interim award to be material to the Bank's financial condition, we are noting it in the interest of full disclosure.

During the first quarter, the Bank welcomed its 300th member, Priority One Credit Union. As of March 31, 2001, the Bank had 302 members, comprising 195 banks, 49 savings institutions, 45 credit unions, and 13 thrift and loans.

In April 2001, the Bank began offering members the opportunity to participate in the Mortgage Partnership Finance[®] Program, an innovative option for selling conventional conforming and government fixed-rate loans. The MPF[®] Program is designed to reward lenders for their expertise in evaluating credit risk, while enabling them to take advantage of the Bank's ability to manage the interest rate risk associated with long-term fixed-rate mortgages. By combining the local credit underwriting expertise of members with the capital market access of the Federal Home Loan Banks, the MPF Program provides members with a valuable new strategy for financing home loans.

Sincerely,



Dean Schultz
President and Chief Executive Officer

Note: "Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

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Statements of Condition

(In thousands—except par value)	March 31, 2001 (Unaudited)	December 31, 2000	March 31, 2000 (Unaudited)
ASSETS			
Cash and due from banks	\$ 5,547	\$ 4,584	\$ 3,512
Interest-bearing deposits in banks	3,850,000	2,698,000	1,026,000
Securities purchased under agreements to resell	2,000,000	400,000	1,911,000
Federal funds sold	10,244,000	8,376,000	10,739,000
Held-to-maturity securities (\$213,189, \$360,636, \$680,209, respectively, were pledged as collateral)	15,068,253	15,524,693	13,422,330
Held-at-fair-value securities	647,339	—	—
Advances	111,365,241	110,031,641	96,098,849
Accrued interest receivable	766,301	3,136,776	2,094,811
Premises and equipment, net	4,211	4,326	4,389
Held-at-fair-value derivatives	279,760	—	—
Other assets	13,270	13,988	14,365
Total Assets	<u>\$144,243,922</u>	<u>\$140,190,008</u>	<u>\$125,314,256</u>
LIABILITIES AND CAPITAL			
Liabilities:			
Consolidated obligations, net:			
Bonds	\$ 93,960,000	\$ 97,365,608	\$ 81,082,937
Discount notes	41,507,077	32,097,431	32,636,990
Total consolidated obligations	<u>135,467,077</u>	<u>129,463,039</u>	<u>113,719,927</u>
Deposits:			
Demand and overnight	565,860	347,613	330,712
Term	31,000	28,800	24,037
Total deposits	<u>596,860</u>	<u>376,413</u>	<u>354,749</u>
Borrowings:			
Securities sold under agreements to repurchase	—	—	400,000
Total borrowings	<u>—</u>	<u>—</u>	<u>400,000</u>
Accrued interest payable	1,187,353	3,888,254	2,544,349
Affordable Housing Program	114,583	109,630	92,324
Payable to REFCORP	26,892	25,315	21,491
Held-at-fair-value derivatives	264,692	—	—
Other liabilities	138,980	35,212	2,334,639
Total Liabilities	<u>137,796,437</u>	<u>133,897,863</u>	<u>119,467,479</u>
Capital:			
Capital stock outstanding (\$100 par value)	6,434,634	6,267,859	5,808,865
Retained earnings:			
Unrestricted retained earnings	49	107	78
Restricted retained earnings	26,350	24,179	37,834
Total retained earnings	<u>26,399</u>	<u>24,286</u>	<u>37,912</u>
Accumulated other comprehensive income	(13,548)	—	—
Total Capital	<u>6,447,485</u>	<u>6,292,145</u>	<u>5,846,777</u>
Total Liabilities and Capital	<u>\$144,243,922</u>	<u>\$140,190,008</u>	<u>\$125,314,256</u>

The financial information as of March 31, 2001 and 2000, is unaudited and should be read in conjunction with the audited financial statements for the year ended December 31, 2000, 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	
	March 31, 2001 (Unaudited)	March 31, 2000 (Unaudited)
INTEREST INCOME:		
Advances	\$ 1,646,070	\$ 1,384,817
Interest-bearing deposits in banks	41,617	23,319
Securities purchased under agreements to resell	31,055	50,472
Federal funds sold	137,671	135,840
Held-to-maturity securities	216,714	160,136
Held-at-fair-value securities	10,045	—
Loans to other Federal Home Loan Banks	76	85
Total Interest Income	2,083,248	1,754,669
INTEREST EXPENSE:		
Consolidated obligations	1,934,614	1,619,094
Deposits	4,449	2,917
Securities sold under agreements to repurchase	—	5,680
Other borrowings	35	29
Total Interest Expense	1,939,098	1,627,720
NET INTEREST INCOME	144,150	126,949
OTHER INCOME:		
Prepayment fees, net	470	71
Services to members	237	213
Gain on financial instruments, net	16,175	—
Other, net	878	888
Total Other Income	17,760	1,172
OTHER EXPENSE:		
Operating expense	11,105	9,684
Federal Housing Finance Board and Office of Finance expenses	1,911	1,432
Total Other Expense	13,016	11,116
INCOME BEFORE ASSESSMENTS AND CUMULATIVE EFFECT OF ADOPTING SFAS NO. 133	148,894	117,005
REFCORP assessments	26,898	21,491
Affordable Housing Program assessments	11,954	9,551
Total Assessments	38,852	31,042
INCOME BEFORE CUMULATIVE EFFECT OF ADOPTING SFAS NO. 133	110,042	85,963
Cumulative effect of adopting SFAS No. 133	(2,453)	—
NET INCOME	\$ 107,589	\$ 85,963
FINANCIAL RATIOS (ANNUALIZED)		
	Three Months Ended	
	March 31, 2001	March 31, 2000
Adjusted Return on Equity*	6.53%	6.29%
Dividend Rate	6.82%	8.28%

* The Bank uses certain adjusted financial performance measures to provide more meaningful comparisons of the Bank's performance over time. Adjusted financial performance measures reflect earnings before nonrecurring items (advance prepayment fees, extraordinary gains and losses associated with the early retirement of debt, and other material nonrecurring gains and losses), net of the amortization of current and prior period nonrecurring items, in accordance with the Bank's retained earnings policy. In addition, adjusted financial performance measures reflect the reversal of any current period fair value adjustments made in accordance with SFAS No. 133, which was implemented on January 1, 2001.

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