

Federal Home Loan Bank of San Francisco Second Quarter Report

To Our Members

For the second quarter of 2001, the Federal Home Loan Bank of San Francisco paid a dividend rate of 5.90% (annualized). This rate is consistent with the Bank's goal to provide a return to its members that is comparable to the return they could receive on investments with a risk profile similar to that of Bank stock. The dividend rate for the second quarter of 2000 was 7.25% (annualized), reflecting the higher interest rates prevalent during that period, as well as the payout of \$11.5 million in previously restricted retained earnings, which added 0.81% to the annualized dividend yield.

After increasing for 12 consecutive quarters, the Bank's advances outstanding decreased slightly during the second quarter as a result of lower borrowings by several of the Bank's larger members. As of June 30, 2001, the Bank had \$107.4 billion in advances, declining \$3.9 billion, or 4%, relative to March 31, 2001, and \$2.6 billion, or 2%, relative to December 31, 2000. In total, 53 members decreased their Bank borrowings during the quarter, while 80 members increased their Bank borrowings.

Total assets declined to \$134.8 billion, decreasing \$9.5 billion, or 7%, during the quarter, and \$5.4 billion, or 4%, relative to yearend 2000. In addition to the reduction in credit outstanding, the Bank reduced its liquidity investments, primarily federal funds sold.

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 were included in accrued interest receivable and accrued interest payable in 2000 have been reclassified with their associated derivatives, resulting in decreases of \$2.5 billion and \$2.7 billion in accrued interest receivable and accrued interest payable, respectively, since December 31, 2000.

Net interest income for the second quarter was \$127.6 million, a decrease of \$5.3 million, or 4%, relative to the year-earlier period. This decline was primarily due to lower earnings on capital as a result of the drop in interest rates, as well as narrower interest rate spreads on advances and investments.

Net income totaled \$102.4 million for the quarter, an increase of \$11.0 million, or 12%, relative to the same period in 2000. The increase includes the net effect of fair value adjustments made under SFAS No. 133, which increased net income by \$10.2 million. Since this favorable effect was a matter of timing only, the Bank retained this amount in accordance with its retained earnings policy to offset future reversals. The ongoing impact of SFAS No. 133 on the Bank cannot be predicted. 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.

In June, a Bank member obtained an arbitration award of \$7.9 million plus \$2.0 million in interest and costs in a dispute relating to certain advance transactions. The arbitration agreement provided either party with the right to seek independent review of the legal issues by the federal district court, and the Bank exercised that right in July. The Bank expects the district court to issue a decision in the first quarter of 2002.

The Bank's Board of Directors approved a draft capital plan in June. To obtain member reactions to the proposed capital plan, the Bank hosted six briefings throughout the 11th District after providing each member with a summary of the plan, a customized sample stock requirement calculation, and a survey. Almost a third of the members attended the meetings, and over two-thirds completed the survey. Members were generally supportive of the changes described in the draft plan. We will continue to work with the Board of Directors to finalize the plan by the October 29th deadline.

The Bank awarded a record \$18.6 million in the first round of the 2001 Affordable Housing Program competition, the largest amount the Bank has ever awarded in a single round. I thank the Bank's members for their participation in the AHP, their input on the proposed capital plan, and their use of the Bank's other products and services. Through our members, we can continue to make a difference in meeting the credit needs of communities throughout the 11th District.

Sincerely,



Dean Schultz
President and Chief Executive Officer

Federal Home Loan Bank of San Francisco
Second Quarter Report

Statements of Condition

(In thousands—except par value)	June 30, 2001 (Unaudited)	December 31, 2000	June 30, 2000 (Unaudited)
ASSETS			
Cash and due from banks	\$ 2,615	\$ 4,584	\$ 4,776
Interest-bearing deposits in banks	3,025,000	2,698,000	1,986,000
Securities purchased under agreements to resell	1,284,813	400,000	254,184
Federal funds sold	6,728,000	8,376,000	9,032,000
Held-to-maturity securities (\$182,088, \$360,636, \$1,296,234, respectively, were pledged as collateral)	14,887,447	15,524,693	14,374,424
Held-at-fair-value securities	598,676	—	—
Advances	107,416,332	110,031,641	101,230,338
Accrued interest receivable	589,985	3,136,776	2,535,112
Premises and equipment, net	4,230	4,326	4,842
Held-at-fair-value derivatives	234,225	—	—
Other assets	17,491	13,988	14,111
Total Assets	<u>\$134,788,814</u>	<u>\$140,190,008</u>	<u>\$129,435,787</u>
LIABILITIES AND CAPITAL			
Liabilities:			
Consolidated obligations, net:			
Bonds	\$ 91,064,771	\$ 97,365,608	\$ 84,114,916
Discount notes	34,820,767	32,097,431	35,185,649
Total consolidated obligations	<u>125,885,538</u>	<u>129,463,039</u>	<u>119,300,565</u>
Deposits:			
Demand and overnight	448,673	347,613	247,040
Term	24,500	28,800	22,830
Total deposits	<u>473,173</u>	<u>376,413</u>	<u>269,870</u>
Borrowings:			
Securities sold under agreements to repurchase	—	—	400,000
Other	—	—	75,000
Total borrowings	<u>—</u>	<u>—</u>	<u>475,000</u>
Accrued interest payable	1,169,138	3,888,254	3,351,709
Affordable Housing Program	119,754	109,630	97,138
Payable to REFCORP	25,604	25,315	22,855
Held-at-fair-value derivatives	263,010	—	—
Other liabilities	268,925	35,212	34,100
Total Liabilities	<u>128,205,142</u>	<u>133,897,863</u>	<u>123,551,237</u>
Capital:			
Capital stock outstanding (\$100 par value)	6,559,740	6,267,859	5,858,119
Retained earnings:			
Unrestricted retained earnings	130	107	29
Restricted retained earnings	34,346	24,179	26,402
Total retained earnings	<u>34,476</u>	<u>24,286</u>	<u>26,431</u>
Accumulated other comprehensive income	(10,544)	—	—
Total Capital	<u>6,583,672</u>	<u>6,292,145</u>	<u>5,884,550</u>
Total Liabilities and Capital	<u>\$134,788,814</u>	<u>\$140,190,008</u>	<u>\$129,435,787</u>

The financial information as of June 30, 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.

Federal Home Loan Bank of San Francisco
Second Quarter Report

Statements of Income

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)	June 30, 2001 (Unaudited)	June 30, 2000 (Unaudited)
INTEREST INCOME:				
Advances	\$ 1,300,269	\$ 1,527,955	\$ 2,946,339	\$ 2,912,772
Interest-bearing deposits in banks	35,483	22,242	77,100	45,561
Securities purchased under agreements to resell	9,698	22,028	40,753	72,500
Federal funds sold	101,190	129,912	238,861	265,752
Held-to-maturity securities	208,189	234,925	424,903	395,061
Held-at-fair-value securities	7,681	—	17,726	—
Loans to other Federal Home Loan Banks	304	48	380	133
Total Interest Income	1,662,814	1,937,110	3,746,062	3,691,779
INTEREST EXPENSE:				
Consolidated obligations	1,530,426	1,795,129	3,465,040	3,414,223
Deposits	4,726	3,111	9,175	6,028
Securities sold under agreements to repurchase	—	5,907	—	11,587
Borrowings from other Federal Home Loan Banks	29	9	29	9
Other borrowings	48	35	83	64
Total Interest Expense	1,535,229	1,804,191	3,474,327	3,431,911
NET INTEREST INCOME	127,585	132,919	271,735	259,868
OTHER INCOME:				
Prepayment fees, net	2,633	50	3,103	121
Services to members	239	234	476	447
Gain on financial instruments, net	21,728	—	37,903	—
Other, net	878	1,535	1,756	2,423
Total Other Income	25,478	1,819	43,238	2,991
OTHER EXPENSE:				
Operating expense	11,307	10,099	22,412	19,783
Federal Housing Finance Board and Office of Finance expenses	1,772	1,457	3,683	2,889
Total Other Expense	13,079	11,556	26,095	22,672
INCOME BEFORE ASSESSMENTS, EXTRAORDINARY ITEMS, AND CUMULATIVE EFFECT OF ADOPTING SFAS NO. 133				
	139,984	123,182	288,878	240,187
REFCORP assessments	25,609	22,855	52,507	44,346
Affordable Housing Program assessments	11,382	10,158	23,336	19,709
Total Assessments	36,991	33,013	75,843	64,055
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ADOPTING SFAS NO. 133				
	102,993	90,169	213,035	176,132
Extraordinary (losses)/gains on early retirement of debt	(555)	1,252	(555)	1,252
Cumulative effect of adopting SFAS No. 133	—	—	(2,453)	—
NET INCOME	\$ 102,438	\$ 91,421	\$ 210,027	\$ 177,384
FINANCIAL RATIOS (ANNUALIZED)				
	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Adjusted Return on Equity*	5.66%	6.35%	6.09%	6.33%
Dividend Rate	5.90%	7.25%	6.35%	7.75%

* 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.

The financial information for the periods ended June 30, 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.