

to our members

For the first quarter of 2002, the Federal Home Loan Bank of San Francisco will pay a dividend of 5.65% (annualized). The dividend rate for the first quarter of 2001 was 6.82% (annualized), reflecting the higher interest rates prevalent during that period.

Net income for the quarter totaled \$110.9 million, an increase of \$3.3 million, or 3%, relative to the same period in 2001. The net effect of fair value adjustments resulting from SFAS 133, net of applicable assessments, totaled \$21.7 million, an increase of \$15.5 million compared to the first quarter of 2001. Excluding the net effects of SFAS 133 and certain nonrecurring items, adjusted net income for the quarter was \$89.8 million, a decrease of \$12.6 million, or 12%, relative to the same period in 2001. Because the favorable effect of SFAS 133 on net income was a matter of timing only and will be reversed in future periods, the Bank retained \$21.7 million in accordance with the Bank's retained earnings policy.

Net interest income for the quarter was \$134.1 million, a decrease of \$10.0 million, or 7%, compared to the year-earlier period. This decrease is primarily due to lower earnings on invested member capital because of the significant decline in interest rates, which was partially offset by higher income on investments in mortgage-backed securities (MBS).

In response to changing member needs, total advances decreased \$8.5 billion, or 8%, to \$93.8 billion during the quarter, as several of the Bank's largest members reduced their Bank borrowings. In all, 62 members decreased their Bank borrowings during the quarter, while 80 members increased their Bank borrowings.

Total assets decreased \$5.0 billion, or 4%, to \$130.4 billion during the quarter. The reduction in advances was partially offset by increases of \$1.1 billion in interest-bearing deposits in banks, \$1.3 billion in Federal funds sold, and \$1.2 billion in held-to-maturity securities, as the Bank took advantage of favorable investment opportunities.

The Bank's financial strategies are designed to enable it to expand and contract in response to member credit needs. The Bank invests member capital in high-quality, short- and intermediate-term financial instruments to reduce the risk of loss if investments have to be liquidated to redeem capital


stock. The Bank measures its financial performance by comparing its "potential dividend yield" (current period earnings, excluding nonrecurring items and fair value adjustments, as a percentage of capital stock) to a dividend benchmark that reflects its capital investment strategy. The spread of the potential dividend yield to the dividend benchmark was 2.09% for the first quarter of 2002 and 0.96% for the first quarter of 2001. The increase in the spread over the dividend benchmark in the first quarter of 2002 is primarily due to higher income on MBS investments and the reduction in REFCORP and AHP assessments that would have occurred without the effects of SFAS 133.

As members decrease their use of Bank credit, the Bank's policy is to reduce the amount of capital stock outstanding, as well. In April, the Bank redeemed surplus capital stock totaling \$800.2 million in response to the decrease in advances in the first quarter.

The Federal Housing Finance Board has been reviewing the Bank's proposed capital plan and has requested some modifications. We expect to present a revised plan to the Bank's board of directors at the end of May, and we will update the proposed plan and summary on our website once the board of directors approves the revisions. The Finance Board is expected to consider the Bank's revised plan for approval at its meeting on June 12, 2002.

In May, the Bank purchased its first loans under the Mortgage Partnership Finance® Program, an innovative alternative to the traditional secondary market that taps the respective strengths of the Bank and its members. The MPF® Program rewards lenders for their underwriting expertise while reducing their exposure to the interest rate risk associated with long-term, fixed-rate mortgage loans. We encourage members to explore the advantages of this new funding option.

Sincerely,



Dean Schultz
President and Chief Executive Officer

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

Statements in this report may be forward-looking and contain terms such as "may," "expect," and "will." The Bank cautions that actual results could differ materially from those expressed or implied in these statements.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO FIRST QUARTER REPORT 2002

statements of condition

(IN THOUSANDS—EXCEPT PAR VALUE)	MARCH 31, 2002 (UNAUDITED)	DECEMBER 31, 2001	MARCH 31, 2001 (UNAUDITED)
ASSETS			
Cash and due from banks	\$ 723	\$ 1,889	\$ 5,547
Interest-bearing deposits in banks	5,621,000	4,487,000	3,850,000
Securities purchased under agreements to resell	2,200,000	2,150,000	2,000,000
Federal funds sold	9,739,500	8,445,000	10,244,000
Held-to-maturity securities (\$264,274, \$1,222,976, \$213,189, respectively, were pledged as collateral)	17,754,769	16,543,889	15,068,253
Held-at-fair-value securities (\$0, \$226,461, \$0, respectively, were pledged as collateral)	546,686	527,870	647,339
Advances	93,776,327	102,254,552	111,365,241
Loans to other Federal Home Loan Banks	—	25,000	—
Accrued interest receivable	411,187	418,606	766,301
Premises and equipment, net	5,431	5,529	4,211
Derivative assets	271,137	479,860	279,760
Other assets	46,328	44,677	33,988
Total Assets	<u>\$130,373,088</u>	<u>\$135,383,872</u>	<u>\$144,264,640</u>
LIABILITIES AND CAPITAL			
Liabilities:			
Deposits:			
Demand and overnight	\$ 474,375	\$ 443,344	\$ 544,844
Term	32,000	36,000	31,000
Other	108,805	272,273	21,016
Total deposits	<u>615,180</u>	<u>751,617</u>	<u>596,860</u>
Consolidated obligations, net:			
Bonds	103,762,736	104,684,833	93,980,092
Discount notes	17,572,873	21,283,052	41,507,703
Total consolidated obligations	<u>121,335,609</u>	<u>125,967,885</u>	<u>135,487,795</u>
Other borrowings	—	200,000	—
Accrued interest payable	923,641	1,080,127	1,187,353
Affordable Housing Program	131,819	127,038	114,583
Payable to REFCORP	27,960	36,875	26,892
Derivative liabilities	335,461	372,812	264,692
Other liabilities	267,865	38,054	138,980
Total Liabilities	<u>123,637,535</u>	<u>128,574,408</u>	<u>137,817,155</u>
CAPITAL:			
Capital stock outstanding (\$100 par value)	6,656,093	6,751,941	6,434,634
Retained earnings	81,983	62,269	26,399
Accumulated other comprehensive loss	(2,523)	(4,746)	(13,548)
Total Capital	<u>6,735,553</u>	<u>6,809,464</u>	<u>6,447,485</u>
Total Liabilities and Capital	<u>\$130,373,088</u>	<u>\$135,383,872</u>	<u>\$144,264,640</u>

The financial information as of March 31, 2002 and 2001, is unaudited and should be read in conjunction with the audited financial statements for the year ended December 31, 2001, and the accompanying notes thereto. Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation. The audited financial statements may be obtained by calling 415.616.2610.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO FIRST QUARTER REPORT 2002

statements of income

(IN THOUSANDS)	THREE MONTHS ENDED	
	MARCH 31, 2002 (UNAUDITED)	MARCH 31, 2001 (UNAUDITED)
INTEREST INCOME:		
Advances	\$504,233	\$1,646,070
Interest-bearing deposits in banks	21,116	41,617
Securities purchased under agreements to resell	11,882	31,055
Federal funds sold	34,387	137,671
Held-to-maturity securities	200,948	216,714
Held-at-fair-value securities	2,780	10,045
Loans to other Federal Home Loan Banks	75	76
Total Interest Income	775,421	2,083,248
INTEREST EXPENSE:		
Consolidated obligations	638,932	1,934,614
Deposits	2,276	4,449
Borrowings from other Federal Home Loan Banks	32	—
Other borrowings	65	35
Total Interest Expense	641,305	1,939,098
NET INTEREST INCOME	134,116	144,150
OTHER INCOME:		
Prepayment fees	1,465	470
Services to members	218	237
Net (loss)/gain on held-at-fair-value securities	(3,585)	7,089
Net gain on derivatives and hedging activities	32,227	9,086
Other, net	931	878
Total Other Income	31,256	17,760
OTHER EXPENSE:		
Operating expense	12,165	11,105
Federal Housing Finance Board and Office of Finance expenses	2,309	1,911
Total Other Expense	14,474	13,016
INCOME BEFORE ASSESSMENTS AND CUMULATIVE EFFECT OF ADOPTING SFAS 133	150,898	148,894
REFCORP assessments	27,716	26,898
Affordable Housing Program assessments	12,318	11,954
Total Assessments	40,034	38,852
INCOME BEFORE CUMULATIVE EFFECT OF ADOPTING SFAS 133	110,864	110,042
Cumulative effect of adopting SFAS 133	—	(2,453)
Net Income	\$110,864	\$ 107,589

reconciliation of net income to adjusted net income

Net Income	\$110,864	\$ 107,589
Net nonrecurring items, net of amortization	719	1,045
Fair value adjustments, net	(21,748)	(6,223)
ADJUSTED NET INCOME	\$ 89,835	\$ 102,411

financial ratios (annualized)

Adjusted Return on Equity	5.48%	6.53%
Dividend Rate	5.65%	6.82%
Potential Dividend Yield	5.56%	6.61%
Dividend Benchmark	3.47%	5.65%
Spread of Potential Dividend Yield to Dividend Benchmark	2.09%	0.96%

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FEDERAL HOME LOAN BANK
of SAN FRANCISCO

Post Office Box 7948
San Francisco, CA 94120
www.fhlbsf.com