

## to our members

The Federal Home Loan Bank of San Francisco's dividend rate for the second quarter of 2002 was 5.58% (annualized). The dividend rate for the second quarter of 2001 was 5.90% (annualized), reflecting the higher interest rates prevalent during that period.

The Bank measures its financial performance by comparing its potential dividend yield (current period earnings, excluding non-recurring items and fair value adjustments, as a percentage of capital stock) to a dividend benchmark that reflects the Bank's strategy of investing member capital in high-quality, short- and intermediate-term investments. The spread of the potential dividend yield to the dividend benchmark was 2.08% for the second quarter of 2002 and 0.78% for the second quarter of 2001. The significant increase in the spread is primarily due to higher earnings on MBS investments because of higher spreads and increased balances. In addition, the reduction in REFCORP and AHP assessments during the second quarter relative to the year-earlier period contributed to the increase, since a reduction in assessments has a favorable effect on the Bank's potential dividend yield, but no effect on the dividend benchmark.

Net income totaled \$51.9 million for the second quarter, a decrease of \$50.5 million, or 49%, compared to the same period in 2001. The net effect of fair value adjustments resulting from SFAS 133, net of applicable assessments, decreased net income by \$31.5 million. Excluding the net effects of SFAS 133 and certain nonrecurring items, adjusted net income was \$84.4 million, a decrease of \$7.4 million, or 8%, relative to the same period in 2001. This decline was primarily due to lower earnings on invested member capital resulting from the continued lower interest rate environment, partially offset by higher earnings on MBS investments.

The net cumulative effect of SFAS 133 through June 30, 2002, is a net gain of \$41.0 million (net of applicable assessments). Because the favorable effect of SFAS 133 on net income is a matter of timing only and will be reversed in future periods, the Bank has restricted an equivalent amount of retained earnings to offset the future impact of SFAS 133. The negative effect of SFAS 133 on second quarter net income had no effect on the second quarter dividend rate because the Bank had previously restricted retained earnings for prior cumulative gains in anticipation of the future reversal of those gains.

As of June 30, 2002, the Bank had \$89.8 billion in advances outstanding, a decrease of \$12.5 billion, or 12%, relative to December 31, 2001. This decline was due to reduced advance demand by several of the Bank's larger members. In all, 66 members decreased their Bank borrowings during the second quarter, while 73 members increased their Bank borrowings.

Total assets decreased \$13.0 billion, or 10%, relative to yearend 2001. In addition to the decline in advances, Federal funds sold decreased \$4.1 billion, while held-to-maturity securities increased \$3.0 billion.

During the quarter, Golden State Bancorp, the parent of the Bank's second largest borrower, California Federal Bank, announced that the parent will be acquired by Citigroup. The effects of the acquisition on the Bank's business or financial results are uncertain; however, the Bank's financial strategies and capital structure are designed to enable it to expand and contract in response to changes in membership and member credit needs.

On July 31, 2002, the Bank redeemed \$319.2 million in surplus capital stock in response to the second quarter decline in advances, bringing the total amount of surplus capital redemptions in 2002 to \$1.4 billion.

On June 12, 2002, the Federal Housing Finance Board approved the capital plan adopted by the Bank's Board of Directors in May. The Bank has not yet established an implementation date, and the capital plan is subject to change with Finance Board approval. Please visit our website at [www.fhlbsf.com](http://www.fhlbsf.com) for capital plan updates.

The Bank's 2002 member conference, "Solving the Profitability Puzzle: Strategies for Success in Any Economy," will be held on September 29 and 30 in San Diego. I encourage you to attend to learn more about the state of the economy, creative loan and deposit products, trends in mortgage finance, and the Bank's products and services, including our community investment programs and the Mortgage Partnership Finance® Program.

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 SECOND QUARTER REPORT 2002

statements of condition

(IN THOUSANDS—EXCEPT PAR VALUE)	JUNE 30, 2002 (UNAUDITED)	DECEMBER 31, 2001	JUNE 30, 2001 (UNAUDITED)
<b>ASSETS</b>			
Cash and due from banks	\$ 2,709	\$ 1,889	\$ 2,615
Deposits for mortgage loan program with other Federal Home Loan Banks	5,332	—	—
Interest-bearing deposits in banks	3,327,001	4,487,000	3,025,000
Securities purchased under agreements to resell	3,850,000	2,150,000	1,284,813
Federal funds sold	4,340,000	8,445,000	6,728,000
Held-to-maturity securities (\$153,549, \$1,222,976, \$182,088 respectively, were pledged as collateral)	19,544,128	16,543,889	14,887,447
Held-at-fair-value securities (\$21,272, \$226,461, \$0, respectively, were pledged as collateral)	530,007	527,870	598,676
Advances	89,772,244	102,254,552	107,416,332
Mortgage loans, net	5,324	—	—
Loans to other Federal Home Loan Banks	100,000	25,000	—
Accrued interest receivable	419,033	418,606	589,985
Premises and equipment, net	5,771	5,529	4,230
Derivative assets	486,019	479,860	234,225
Other assets	43,537	44,677	46,601
Total Assets	<u>\$122,431,105</u>	<u>\$135,383,872</u>	<u>\$134,817,924</u>
<b>LIABILITIES AND CAPITAL</b>			
Liabilities:			
Deposits:			
Demand and overnight	\$ 358,386	\$ 443,344	\$ 394,033
Term	53,000	36,000	24,500
Other	158,456	272,273	54,640
Total deposits	<u>569,842</u>	<u>751,617</u>	<u>473,173</u>
Consolidated obligations, net:			
Bonds	100,172,365	104,684,833	91,093,172
Discount notes	13,972,999	21,283,052	34,821,476
Total consolidated obligations	<u>114,145,364</u>	<u>125,967,885</u>	<u>125,914,648</u>
Borrowings:			
Other Federal Home Loan Banks	225,000	—	—
Other borrowings	75,000	200,000	—
Total borrowings	<u>300,000</u>	<u>200,000</u>	<u>—</u>
Accrued interest payable	896,092	1,080,127	1,169,138
Affordable Housing Program	134,691	127,038	119,754
Payable to REFCORP	12,978	36,875	25,604
Derivative liabilities	245,511	372,812	263,010
Other liabilities	33,782	38,054	268,925
Total Liabilities	<u>116,338,260</u>	<u>128,574,408</u>	<u>128,234,252</u>
<b>CAPITAL:</b>			
Capital stock outstanding (\$100 par value)	6,046,567	6,751,941	6,559,740
Retained earnings	48,576	62,269	34,476
Accumulated other comprehensive loss	(2,298)	(4,746)	(10,544)
Total Capital	<u>6,092,845</u>	<u>6,809,464</u>	<u>6,583,672</u>
Total Liabilities and Capital	<u>\$122,431,105</u>	<u>\$135,383,872</u>	<u>\$134,817,924</u>

The financial information as of June 30, 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 and this quarterly report are posted on the Bank's website at [www.fhlbsf.com/publications.asp](http://www.fhlbsf.com/publications.asp) and may also be obtained by calling 415.616.2610.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO SECOND QUARTER REPORT 2002

**statements of income**

(UNAUDITED)  
(IN THOUSANDS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30, 2001
<b>INTEREST INCOME:</b>				
Advances	\$473,222	\$1,300,269	\$ 977,455	\$2,946,339
Interest-bearing deposits in banks	18,163	35,483	39,279	77,100
Deposits for mortgage loan program with other Federal Home Loan Banks	8	—	8	—
Securities purchased under agreements to resell	9,203	9,698	21,085	40,753
Federal funds sold	31,753	101,190	66,140	238,861
Held-to-maturity securities	219,996	208,189	420,944	424,903
Held-at-fair-value securities	2,879	7,681	5,659	17,726
Mortgage loans	27	—	27	—
Loans to other Federal Home Loan Banks	73	304	148	380
Total Interest Income	755,324	1,662,814	1,530,745	3,746,062
<b>INTEREST EXPENSE:</b>				
Consolidated obligations	627,329	1,522,495	1,266,261	3,451,956
Deposits	1,645	4,726	3,921	9,175
Borrowings from other Federal Home Loan Banks	35	29	67	29
Other borrowings	10	48	75	83
Total Interest Expense	629,019	1,527,298	1,270,324	3,461,243
<b>NET INTEREST INCOME BEFORE LOAN LOSS PROVISION</b>	126,305	135,516	260,421	284,819
Provision for credit losses on mortgage loans	4	—	4	—
<b>NET INTEREST INCOME</b>	126,301	135,516	260,417	284,819
<b>OTHER INCOME:</b>				
Prepayment fees	1,188	2,633	2,653	3,103
Services to members	224	239	442	476
Net gain/(loss) on held-at-fair-value securities	8,936	(5,600)	5,351	1,489
Net (loss)/gain on derivatives and hedging activities	(52,467)	19,397	(20,240)	23,330
Other, net	877	323	1,808	1,201
Total Other Income	(41,242)	16,992	(9,986)	29,599
<b>OTHER EXPENSE:</b>				
Operating expense	12,362	11,307	24,527	22,412
Federal Housing Finance Board and Office of Finance expenses	2,040	1,772	4,349	3,683
Total Other Expense	14,402	13,079	28,876	26,095
<b>INCOME BEFORE ASSESSMENTS AND CUMULATIVE EFFECT OF ADOPTING SFAS 133</b>	70,657	139,429	221,555	288,323
REFCORP assessments	12,978	25,609	40,694	52,507
Affordable Housing Program assessments	5,768	11,382	18,086	23,336
Total Assessments	18,746	36,991	58,780	75,843
<b>INCOME BEFORE CUMULATIVE EFFECT OF ADOPTING SFAS 133</b>	51,911	102,438	162,775	212,480
Cumulative effect of adopting SFAS 133	—	—	—	(2,453)
<b>Net Income</b>	<b>\$ 51,911</b>	<b>\$ 102,438</b>	<b>\$ 162,775</b>	<b>\$ 210,027</b>

**reconciliation of net income to adjusted net income**

Net Income	\$ 51,911	\$ 102,438	\$ 162,775	\$ 210,027
Net nonrecurring items, net of amortization	931	(582)	1,650	463
Fair value adjustments, net	31,521	(10,137)	9,773	(18,234)
<b>Adjusted Net Income</b>	<b>\$ 84,363</b>	<b>\$ 91,719</b>	<b>\$ 174,198</b>	<b>\$ 192,256</b>

**financial ratios (annualized)**

Adjusted Return on Equity	5.44%	5.66%	5.46%	6.09%
Dividend Rate	5.58	5.90	5.62	6.35
Potential Dividend Yield	5.51	5.72	5.53	6.13
Dividend Benchmark	3.43	4.94	3.45	5.29
Spread of Potential Dividend Yield to Dividend Benchmark	2.08	0.78	2.08	0.84

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