

to our members

The Federal Home Loan Bank of San Francisco's dividend rate for the third quarter of 2002 was 5.24% (annualized). The dividend rate for the third quarter of 2001 was 5.31% (annualized).

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 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 1.79% for the third quarter of 2002 and 1.15% for the third quarter of 2001. The increase in the spread is primarily due to higher earnings on MBS investments because of higher spreads and increased balances, combined with lower total capital resulting from redemptions of surplus capital stock. In addition, lower interest rates in the third quarter of 2002 relative to the year-earlier period contributed to a significant decrease in the dividend benchmark.

Net income totaled \$73.4 million for the third quarter, an increase of \$6.3 million, or 9%, compared to the same period in 2001. In August 2002, the Bank received notice of a final court order confirming an arbitration decision awarding a member a refund of \$7.9 million in prepayment fees paid to the Bank in 1998. The final award, with interest, was \$9.4 million, and was expensed in the third quarter, reducing third quarter net income by approximately \$6.9 million after the effect on applicable assessments. This expense reduced the annualized dividend yield for the quarter by 0.42%.

The net effect of fair value adjustments resulting from SFAS 133, net of applicable assessments, decreased net income by \$2.0 million. Excluding the net effects of SFAS 133 and certain nonrecurring items, adjusted net income was \$77.1 million, a decrease of \$15.3 million, or 17%, 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 combined with a reduction in total member capital), partially offset by higher earnings on MBS investments.

The net cumulative effect of SFAS 133 through September 30, 2002, is a net gain of \$39.0 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 third quarter net income had no effect on the third 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 September 30, 2002, the Bank had \$86.0 billion in advances outstanding, a decrease of \$16.2 billion, or 16%, relative to December 31, 2001. This decline was due to reduced advance demand by several of the Bank's larger members. In all, 65 members decreased their Bank borrowings during the first nine months of the year, while 130 members increased their Bank borrowings.

Total assets decreased \$15.5 billion, or 11%, relative to yearend 2001. In addition to the decline in advances, Federal funds sold decreased \$2.4 billion, while held-to-maturity securities and interest-bearing deposits in banks increased \$2.3 billion and \$0.8 billion, respectively.

On October 31, 2002, the Bank redeemed \$294.8 million in surplus capital stock in response to the third quarter decline in advances, bringing the total amount of surplus capital redemptions in 2002 to \$1.7 billion.

During the first nine months of the year, 36 financial institutions were approved for membership in the Bank. As of September 30, 2002, the Bank had 339 members, including 218 banks, 66 credit unions, 44 savings institutions, and 11 thrift and loan companies. In October, the Bank approved its first insurance company member. We welcome these new members to the Bank and encourage all members to use our products and services to achieve their financial goals and meet the credit needs of their communities.

Sincerely,



Dean Schultz
President and Chief Executive Officer

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 THIRD QUARTER REPORT 2002

statements of condition

(IN THOUSANDS—EXCEPT PAR VALUE)	SEPT. 30, 2002 (UNAUDITED)	DECEMBER 31, 2001	SEPT. 30, 2001 (UNAUDITED)
ASSETS			
Cash and due from banks	\$ 3,042	\$ 1,889	\$ 1,109
Deposits for mortgage loan program with other Federal Home Loan Banks	3,649	—	—
Interest-bearing deposits in banks	5,323,000	4,487,000	4,640,000
Securities purchased under agreements to resell	2,100,000	2,150,000	1,150,000
Federal funds sold	6,041,000	8,445,000	6,037,000
Held-to-maturity securities (\$294,569, \$1,222,976, \$1,245,419 respectively, were pledged as collateral)	18,883,209	16,543,889	17,410,162
Held-at-fair-value securities (\$0, \$226,461, \$227,200, respectively, were pledged as collateral)	553,241	527,870	573,843
Advances	86,017,919	102,254,552	108,699,704
Mortgage loans, net	38,504	—	—
Loans to other Federal Home Loan Banks	—	25,000	—
Accrued interest receivable	319,242	418,606	489,823
Premises and equipment, net	6,113	5,529	4,457
Derivative assets	551,745	479,860	582,636
Other assets	39,430	44,677	44,383
Total Assets	\$119,880,094	\$135,383,872	\$139,633,117
LIABILITIES AND CAPITAL			
Liabilities:			
Deposits:			
Demand and overnight	\$ 344,131	\$ 443,344	\$ 579,785
Term	55,290	36,000	41,000
Other	107,508	272,273	162,580
Total deposits	506,929	751,617	783,365
Consolidated obligations, net:			
Bonds	98,444,087	104,684,833	99,008,170
Discount notes	12,837,564	21,283,052	31,525,583
Total consolidated obligations	111,281,651	125,967,885	130,533,753
Borrowings:			
Other borrowings	53,000	200,000	—
Total borrowings	53,000	200,000	—
Accrued interest payable	772,135	1,080,127	1,016,307
Affordable Housing Program	136,504	127,038	119,485
Payable to REFCORP	18,315	36,875	16,766
Derivative liabilities	383,118	372,812	348,246
Other liabilities	790,217	38,054	167,666
Total Liabilities	113,941,869	128,574,408	132,985,588
CAPITAL:			
Capital stock outstanding (\$100 par value)	5,895,637	6,751,941	6,640,811
Retained earnings	44,931	62,269	14,244
Accumulated other comprehensive loss	(2,343)	(4,746)	(7,526)
Total Capital	5,938,225	6,809,464	6,647,529
Total Liabilities and Capital	\$119,880,094	\$135,383,872	\$139,633,117

The financial information as of September 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.fhbsf.com/publications.asp and may also be obtained by calling 415.616.2610.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO THIRD QUARTER REPORT 2002

statements of income

(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPT. 30, 2002	SEPT. 30, 2001	SEPT. 30, 2002	SEPT. 30, 2001
INTEREST INCOME:				
Advances	\$436,945	\$1,037,913	\$1,414,400	\$3,984,252
Interest-bearing deposits in banks	20,102	36,139	59,381	113,239
Deposits for mortgage loan program with other Federal Home Loan Banks	19	—	27	—
Securities purchased under agreements to resell	15,612	11,617	36,697	52,370
Federal funds sold	26,665	64,392	92,805	303,253
Held-to-maturity securities	207,774	199,241	628,718	624,144
Held-at-fair-value securities	2,733	6,028	8,392	23,754
Mortgage loans	195	—	222	—
Loans to other Federal Home Loan Banks	42	219	190	599
Total Interest Income	710,087	1,355,549	2,240,832	5,101,611
INTEREST EXPENSE:				
Consolidated obligations	586,548	1,214,889	1,852,809	4,666,846
Deposits	2,036	3,990	5,957	13,165
Borrowings from other Federal Home Loan Banks	—	49	67	78
Other borrowings	26	119	101	202
Total Interest Expense	588,610	1,219,047	1,858,934	4,680,291
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	121,477	136,502	381,898	421,320
Provision for credit losses on mortgage loans	23	—	27	—
NET INTEREST INCOME	121,454	136,502	381,871	421,320
OTHER INCOME:				
Prepayment fees	1,071	631	3,724	3,734
Services to members	207	212	649	688
Net gain on held-at-fair-value securities	18,199	14,067	23,550	15,556
Net loss on derivatives and hedging activities	(17,170)	(47,317)	(37,410)	(23,986)
Other, net	868	939	2,676	2,140
Total Other Income	3,175	(31,468)	(6,811)	(1,868)
OTHER EXPENSE:				
Operating expense	13,368	11,939	37,895	34,351
Federal Housing Finance Board and Office of Finance expenses	2,021	1,815	6,370	5,498
Arbitration award	9,395	—	9,395	—
Total Other Expense	24,784	13,754	53,660	39,849
INCOME BEFORE ASSESSMENTS AND CUMULATIVE EFFECT OF ADOPTING SFAS 133	99,845	91,280	321,400	379,603
REFCORP assessments	18,339	16,766	59,033	69,272
Affordable Housing Program assessments	8,151	7,451	26,237	30,788
Total Assessments	26,490	24,217	85,270	100,060
INCOME BEFORE CUMULATIVE EFFECT OF ADOPTING SFAS 133	73,355	67,063	236,130	279,543
Cumulative effect of adopting SFAS 133	—	—	—	(2,453)
Net Income	\$ 73,355	\$ 67,063	\$ 236,130	\$ 277,090

reconciliation of net income to adjusted net income

Net Income	\$ 73,355	\$ 67,063	\$ 236,130	\$ 277,090
Net nonrecurring items, net of amortization	1,701	865	3,351	1,328
Fair value adjustments, net	2,027	24,428	11,800	6,194
Adjusted Net Income	\$ 77,083	\$ 92,356	\$ 251,281	\$ 284,612

financial ratios (annualized)

Adjusted Return on Equity	5.16%	5.55%	5.36%	5.90%
Dividend Rate	5.24	5.31	5.50	6.00
Potential Dividend Yield	5.16	5.61	5.44	5.97
Dividend Benchmark	3.37	4.46	3.42	5.01
Spread of Potential Dividend Yield to Dividend Benchmark	1.79	1.15	2.02	0.96

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