

FEDERAL HOME LOAN BANK OF SAN FRANCISCO

2003 FIRST QUARTER REPORT

TO OUR MEMBERS

In the first quarter of 2003, the Federal Home Loan Bank of San Francisco continued to achieve a high level of financial performance while successfully adapting to the changing needs of its members. During the quarter, member demand for wholesale funding declined, which reduced advances outstanding by \$1.5 billion, or 2%. During the same period, members sold \$1.9 billion in loans to the Bank under the Mortgage Partnership Finance® Program.

The Bank measures its financial performance by comparing its potential dividend yield (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 2.02% for the first quarter of 2003 and 2.09% for the first quarter of 2002. This relatively high spread demonstrates the Bank's ability to maintain its financial performance as it expands and contracts in response to member funding needs.

The Federal Home Loan Bank of San Francisco's dividend rate for the first quarter of 2003 was 4.80% (annualized), compared to 5.65% (annualized) for the first quarter of 2002.

Net income totaled \$47.6 million for the first quarter of 2003, a decrease of \$63.3 million, or 57%, relative to the same period in 2002. The net effect of fair value adjustments made in accordance with SFAS 133 resulted in a net loss of \$18.0 million, net of applicable assessments, compared to a net gain of \$21.7 million for the year-earlier period. The effects of SFAS 133 are primarily a matter of timing. Most of the SFAS 133-related net loss in the first quarter of 2003 reflected reversals of prior period net gains. In anticipation of the reversal of those prior period net gains, the Bank had restricted an equivalent amount of retained earnings in prior quarters.

Excluding the net effects of SFAS 133 and certain nonrecurring items, adjusted net income was \$67.6 million, a decrease of \$22.2 million, or 25%, relative to the first quarter of 2002. The decrease was primarily due to lower earnings on invested member capital (resulting from lower capital and lower interest rates) and lower earnings on the Bank's mortgage-backed securities portfolio (resulting from lower profit spreads and accelerated prepayments of higher yielding fixed-rate securities).

In addition to its effect on net income, SFAS 133 can also have a direct effect on the Bank's capital. In accordance with SFAS 133, changes in the fair value of certain derivatives are not immediately recorded in the income statement, but instead are recorded in "other comprehensive income," a component of capital. These changes in fair value will be recognized in earnings in future periods. As of March 31, 2003, other comprehensive income reflected a cumulative net loss of \$3.9

million. When other comprehensive income reflects a negative balance, it is the Bank's policy to retain at least that amount in retained earnings to maintain the total book value of equity at par. As of the end of the first quarter, the Bank had \$1.8 million in restricted retained earnings from the cumulative lifetime impact of SFAS 133 on earnings. To offset the cumulative net loss of \$3.9 million in other comprehensive income, the Bank transferred \$2.1 million of first quarter net earnings to restricted retained earnings. This transfer reduced the first quarter dividend rate by 16 basis points.

The ongoing impact of SFAS 133 on the Bank cannot be predicted. As in this quarter, the Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS 133, which may lead to increased volatility in future dividends.

Total assets decreased \$2.3 billion, or 2%, to \$113.8 billion during the quarter. Advances decreased \$1.5 billion, interest-bearing deposits in banks decreased \$0.9 billion, and securities purchased under agreements to resell decreased \$1.0 billion. These decreases were partially offset by an increase in mortgage loans outstanding. During the first quarter, members sold \$1.9 billion in loans to the Bank through the Mortgage Partnership Finance Program, and the Bank retained interests in those loans totaling \$1.4 billion.

When a member's credit usage decreases, the Bank's policy is to reduce the amount of capital stock outstanding, as well. On April 30, 2003, the Bank redeemed \$578.2 million in surplus capital stock, primarily in response to the decrease in advances during the first quarter.

The Bank's board of directors is continuing to examine the issues facing the Bank and the Federal Home Loan Bank System discussed in the letter to members in the Bank's 2002 annual report. As part of its strategic planning process, the board is addressing the implementation of the Bank's approved capital plan. An implementation date for the new capital plan has not yet been established.

The Bank's 2003 member conference, to be held on September 14-15 in Carlsbad, California, will focus on high performance banking. I encourage you to attend to learn more about the state of the economy, the impact of branding on a institution's bottom line, strategies for asset/liability management, and new Bank products and services.

Sincerely,



Dean Schultz  
President and Chief Executive Officer

"Mortgage Partnership Finance" is a registered trademark of the Federal Home Loan Bank of Chicago.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO  
2003 FIRST QUARTER REPORT  
STATEMENTS OF CONDITION

(IN THOUSANDS-EXCEPT PAR VALUE)	MARCH 31, 2003 (UNAUDITED)	DECEMBER 31, 2002	MARCH 31, 2002 (UNAUDITED)
<b>ASSETS</b>			
Cash and due from banks	\$ 3,312	\$ 8,759	\$ 723
Deposits for mortgage loan program with other Federal Home Loan Bank	22,115	58,113	—
Interest-bearing deposits in banks	3,975,000	4,834,000	5,621,000
Securities purchased under agreements to resell	3,371,000	4,400,000	2,200,000
Federal funds sold	5,799,500	6,068,000	9,739,500
Held-to-maturity securities (\$259,003, \$250,007, \$264,274, respectively, were pledged as collateral)	17,637,572	17,878,844	17,754,769
Held-at-fair-value securities	801,891	533,090	546,686
Advances	79,768,552	81,237,041	93,776,327
Mortgage loans, net of allowance for credit losses on mortgage loans of \$1,152 and \$180, respectively	1,679,546	262,426	—
Accrued interest receivable	216,889	285,055	411,187
Premises and equipment, net	7,454	7,343	5,431
Derivative assets	465,466	518,734	271,137
Other assets	37,783	38,076	46,328
<b>Total Assets</b>	<b>\$113,786,080</b>	<b>\$ 116,129,481</b>	<b>\$ 130,373,088</b>
<b>LIABILITIES AND CAPITAL</b>			
<b>Liabilities:</b>			
Deposits:			
Demand and overnight	\$ 370,772	\$ 352,344	\$ 474,375
Term	38,575	34,510	32,000
Other	8,684	19,785	108,805
<b>Total deposits</b>	<b>418,031</b>	<b>406,639</b>	<b>615,180</b>
Other borrowings	—	525,000	—
Consolidated obligations, net:			
Bonds	94,424,317	95,821,797	103,762,736
Discount notes	11,911,943	12,446,816	17,572,873
<b>Total consolidated obligations</b>	<b>106,336,260</b>	<b>108,268,613</b>	<b>121,335,609</b>
Accrued interest payable	638,729	715,620	923,641
Affordable Housing Program	130,900	131,706	131,819
Payable to REFCORP	11,890	14,012	27,960
Derivative liabilities	360,384	345,865	335,461
Other liabilities	204,881	37,328	267,865
<b>Total Liabilities</b>	<b>108,101,075</b>	<b>110,444,783</b>	<b>123,637,535</b>
<b>Capital:</b>			
Capital stock (\$100 par value) issued and outstanding	5,680,335	5,585,988	6,656,093
Retained earnings	8,554	100,978	81,983
Accumulated other comprehensive loss:			
Unrecognized net loss related to hedging activities	(3,884)	(2,268)	(2,523)
<b>Total Capital</b>	<b>5,685,005</b>	<b>5,684,698</b>	<b>6,735,553</b>
<b>Total Liabilities and Capital</b>	<b>\$113,786,080</b>	<b>\$ 116,129,481</b>	<b>\$ 130,373,088</b>

The financial information as of March 31, 2003 and 2002, is unaudited and should be read in conjunction with the audited financial statements for the year ended December 31, 2002, and the accompanying notes thereto. 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  
2003 FIRST QUARTER REPORT  
STATEMENTS OF INCOME

(IN THOUSANDS)	THREE MONTHS ENDED	
	MARCH 31, 2003 (UNAUDITED)	MARCH 31, 2002 (UNAUDITED)
<b>INTEREST INCOME:</b>		
Advances	\$ 319,516	\$ 504,233
Interest-bearing deposits in banks	13,162	21,116
Deposits for mortgage loan program with other Federal Home Loan Bank	57	—
Securities purchased under agreements to resell	7,051	11,882
Federal funds sold	20,241	34,387
Held-to-maturity securities	167,847	200,948
Held-at-fair-value securities	2,625	2,780
Mortgage loans	11,352	—
Loans to other Federal Home Loan Banks	59	75
Total Interest Income	541,910	775,421
<b>INTEREST EXPENSE:</b>		
Consolidated obligations	437,406	638,932
Deposits	930	2,276
Borrowings from other Federal Home Loan Banks	—	32
Other borrowings	26	65
Total Interest Expense	483,362	641,305
<b>NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION</b>	103,548	134,116
Provision for credit losses on mortgage loans	972	—
<b>NET INTEREST INCOME</b>	102,576	134,116
<b>OTHER (LOSS)/INCOME:</b>		
Prepayment fees	765	1,465
Services to members	215	218
Net loss on held-at-fair-value securities	(415)	(3,585)
Net (loss)/gain on derivatives and hedging activities	(24,493)	32,227
Other, net	667	931
Total Other (Loss)/Income	(23,261)	31,256
<b>OTHER EXPENSE:</b>		
Operating expense	12,838	12,165
Federal Housing Finance Board	1,117	1,486
Office of Finance	626	823
Total Other Expense	14,581	14,474
<b>INCOME BEFORE ASSESSMENTS</b>	64,734	150,898
REFCORP assessments	11,890	27,716
Affordable Housing Program assessments	5,284	12,318
Total Assessments	17,174	40,034
<b>NET INCOME</b>	\$ 47,560	\$ 110,864
<b>RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME</b>		
Net Income	\$ 47,560	\$ 110,864
Net nonrecurring items, net of amortization	2,075	719
Fair value adjustments, net	17,951	(21,748)
<b>ADJUSTED NET INCOME</b>	\$ 67,586	\$ 89,835
<b>FINANCIAL RATIOS (ANNUALIZED)</b>		
Adjusted Return on Equity	4.92%	5.48%
Dividend Rate	4.80%	5.65%
Potential Dividend Yield	5.02%	5.56%
Dividend Benchmark	3.00%	3.47%
Spread of Potential Dividend Yield to Dividend Benchmark	2.02%	2.09%

The financial information for the periods ended March 31, 2003 and 2002, is unaudited and should be read in conjunction with the audited financial statements for the year ended December 31, 2002, and the accompanying notes thereto. 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.

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2003 DIRECTORS AND MANAGEMENT

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*Vice Chairman*

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Rick McGill

Frank P. Pekny

Scott C. Syphax

John T. Wasley

Connie R. Wilhelm

David T. C. Wright

Charlene Gonzales Zettel

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*President and Chief Executive Officer*

Ross J. Kari  
*Executive Vice President and  
Chief Operating Officer*

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David H. Martens

Vera Maytum

Albert McCloskey

Kenneth C. Miller

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Francine J. Constable

Beverly G. Davis

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Gregory P. Fontenot

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David M. Grout

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Gerald Hinkle

Joseph F. Humphrey

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Patricia M. Remch

Michael Roth

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Curtis Tung

Steve Wagner

Anthony T. Wong

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