

FEDERAL HOME LOAN BANK OF SAN FRANCISCO

2003 SECOND QUARTER REPORT

TO OUR MEMBERS

The Federal Home Loan Bank of San Francisco maintained a strong financial performance during the second quarter of 2003. The Bank's dividend rate for the quarter was 4.34% (annualized), compared to 5.58% for the second quarter of 2002. The decrease in the dividend rate was due, in part, to lower earnings on capital as a result of lower interest rates. The decrease was also due to the retention of \$8.0 million of earnings to offset potential future negative effects of FAS 133, which reduced the second quarter dividend rate by 60 basis points.

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 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 1.84% for the second quarter of 2003 and 2.08% for the second 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. During the quarter, advances declined by \$8.1 billion as some members experienced high liquidity levels during the period.

Net income for the second quarter totaled \$88.5 million, an increase of \$36.6 million, or 70%, relative to the same period in 2002. This increase was primarily due to the net effect of fair value adjustments made in accordance with SFAS 133, which resulted in a net gain of \$25.5 million, net of applicable assessments, compared to a net loss of \$31.5 million for the year-earlier period. The effects of SFAS 133 are primarily a matter of timing. In anticipation of the future reversal of the net gains experienced in the second quarter of 2003, the Bank restricted an equivalent amount of retained earnings.

The ongoing impact of SFAS 133 on the Bank cannot be predicted. At any point, the cumulative effect of SFAS 133 could be a net loss, and the Bank's retained earnings could be insufficient to offset that loss. To address this concern, the Bank's Board of Directors amended the Bank's retained earnings and dividend policy to accumulate \$50.0 million in restricted retained earnings over the next seven quarters. In accordance with the new retained earnings and dividend policy, the Bank transferred \$8.0 million to restricted retained earnings during the second quarter.

Excluding the net effects of SFAS 133 and certain non-recurring items, adjusted net income for the quarter was \$63.3 million, a decrease of \$21.0 million, or 25%, relative to the second 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).

As of June 30, 2003, the Bank had \$71.6 billion in advances outstanding, a decrease of \$9.6 billion, or 12%, relative to December 31, 2002. The net decline was due to reduced demand for wholesale funding by some of the Bank's larger members. In all, 82 members reduced their Bank borrowings during the first half of 2003, while 98 members increased their borrowings.

Total assets decreased \$9.8 billion, or 8%, to \$106.3 billion during the first six months of 2003. In addition to the decline in advances, interest-bearing deposits in banks decreased \$1.2 billion and Federal funds sold decreased \$0.8 billion. These decreases were partially offset by an increase in mortgage loans outstanding of \$2.1 billion, as members sold more loans to the Bank through the Mortgage Partnership Finance® Program.

When a member's credit usage decreases, the Bank's policy is to reduce the amount of capital stock outstanding, as well. On July 31, 2003, the Bank redeemed \$423.2 million in surplus capital stock, primarily in response to the decrease in advances during the second quarter.

During the second quarter, the Bank awarded \$21.6 million in grants in the first round of the 2003 Affordable Housing Program competition and \$4.6 million in grants under the Individual Development and Empowerment Account Program. The AHP grants will generate nearly 3,600 affordable housing units, while the IDEA grants will help over 300 very low- to moderate income families to become homeowners. Funded through the Bank's net earnings, these programs support members in their efforts to foster strong and vibrant communities.

As part of its strategic planning process, during the second quarter the Bank's Board of Directors approved revisions to the Bank's Capital Plan that will better position the Bank to respond to changes in its regulatory and competitive environment. The Federal Housing Finance Board approved the revised plan on August 6, 2003. The Bank has established April 1, 2004, as the implementation date for the plan, and the deadline for opting out of the plan is January 1, 2004. The Bank intends to provide members with an information statement that includes comprehensive disclosures about the Bank and the plan in November 2003. We believe the Bank's new Capital Plan will continue to give the Bank the flexibility it needs to manage its balance sheet effectively and meet member credit needs, while expanding the opportunity for new members to use the Bank.

Sincerely,



Dean Schultz
President and Chief Executive Officer

"Mortgage Partnership Finance" is a registered trademark 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.

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STATEMENTS OF CONDITION

(IN THOUSANDS-EXCEPT PAR VALUE)	JUNE 30, 2003 (UNAUDITED)	DECEMBER 31, 2002	JUNE 30, 2002 (UNAUDITED)
ASSETS			
Cash and due from banks	\$ 1,053	\$ 8,759	\$ 2,709
Deposits for mortgage loan program with other Federal Home Loan Bank	38,507	58,113	5,332
Interest-bearing deposits in banks	3,600,000	4,834,000	3,327,001
Securities purchased under agreements to resell	4,300,000	4,400,000	3,850,000
Federal funds sold	5,307,000	6,068,000	4,340,000
Held-to-maturity securities (\$245,309, \$250,007, \$153,549, respectively, were pledged as collateral)	17,545,352	17,878,844	19,544,128
Held-at-fair-value securities (\$0, \$0, \$21,272, respectively, were pledged as collateral)	772,398	533,090	530,007
Advances	71,634,251	81,237,041	89,772,244
Mortgage loans, net of allowance for credit losses on mortgage loans of \$0, \$180, and \$0, respectively	2,389,714	262,426	5,324
Loans to other Federal Home Loan Banks	—	—	100,000
Accrued interest receivable	207,175	285,055	419,033
Premises and equipment, net	8,291	7,343	5,771
Derivative assets	457,930	518,734	486,019
Other assets	45,697	38,076	43,537
Total Assets	\$106,307,368	\$116,129,481	\$122,431,105
LIABILITIES AND CAPITAL			
Liabilities:			
Deposits:			
Demand and overnight	\$ 829,753	\$ 352,344	\$ 358,386
Term	32,250	34,510	53,000
Other	86,772	19,785	158,456
Total deposits	948,775	406,639	569,842
Borrowings:			
Other Federal Home Loan Banks	—	—	225,000
Other borrowings	—	525,000	75,000
Total borrowings	—	525,000	300,000
Consolidated obligations, net:			
Bonds	89,202,086	95,821,797	100,172,365
Discount notes	9,540,854	12,446,816	13,972,999
Total consolidated obligations	98,742,940	108,268,613	114,145,364
Accrued interest payable	554,509	715,620	896,092
Affordable Housing Program	133,399	131,706	134,691
Payable to REFCORP	22,125	14,012	12,978
Derivative liabilities	343,222	345,865	245,511
Other liabilities	156,501	37,328	33,782
Total Liabilities	100,901,471	110,444,783	116,338,260
Capital:			
Capital stock (\$100 par value) issued and outstanding	5,370,688	5,585,988	6,046,567
Retained earnings	39,181	100,978	48,576
Accumulated other comprehensive loss:			
Unrecognized net loss related to hedging activities	(3,972)	(2,268)	(2,298)
Total Capital	5,405,897	5,684,698	6,092,845
Total Liabilities and Capital	\$106,307,368	\$116,129,481	\$122,431,105

The financial information as of June 30, 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 and may also be obtained by calling 415.616.2610.

FEDERAL HOME LOAN BANK OF SAN FRANCISCO
2003 SECOND QUARTER REPORT

STATEMENTS OF INCOME

(IN THOUSANDS)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2003 (UNAUDITED)	JUNE 30, 2002 (UNAUDITED)	JUNE 30, 2003 (UNAUDITED)	JUNE 30, 2002 (UNAUDITED)
INTEREST INCOME:				
Advances	\$ 286,385	\$ 473,222	\$ 605,901	\$ 977,455
Interest-bearing deposits in banks	12,438	18,163	25,600	39,279
Deposits for mortgage loan program with other Federal Home Loan Bank	46	8	103	8
Securities purchased under agreements to resell	9,298	9,203	16,349	21,085
Federal funds sold	19,385	31,753	39,626	66,140
Held-to-maturity securities	149,570	219,996	317,417	420,944
Held-at-fair-value securities	2,756	2,879	5,381	5,659
Mortgage loans	19,025	27	30,377	27
Loans to other Federal Home Loan Banks	14	73	73	148
Total Interest Income	498,917	755,324	1,040,827	1,530,745
INTEREST EXPENSE:				
Consolidated obligations	401,983	627,329	839,389	1,266,261
Deposits	1,113	1,645	2,043	3,921
Borrowings from other Federal Home Loan Banks	5	35	5	67
Other borrowings	30	10	56	75
Total Interest Expense	403,131	629,019	841,493	1,270,324
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	95,786	126,305	199,334	260,421
(Reduction of)/provision for credit losses on mortgage loans	(1,152)	4	(180)	4
NET INTEREST INCOME	96,938	126,301	199,514	260,417
OTHER INCOME/(LOSS):				
Prepayment fees	2,344	1,188	3,109	2,653
Services to members	221	224	436	442
Net gain on held-at-fair-value securities	2,451	8,936	2,036	5,351
Net gain/(loss) on derivatives and hedging activities	31,901	(52,467)	7,408	(20,240)
Other, net	992	877	1,659	1,808
Total Other Income/(Loss)	37,909	(41,242)	14,648	(9,986)
OTHER EXPENSE:				
Operating expense	12,805	12,362	25,643	24,527
Federal Housing Finance Board	1,117	1,196	2,234	2,682
Office of Finance	466	844	1,092	1,667
Total Other Expense	14,388	14,402	28,969	28,876
INCOME BEFORE ASSESSMENTS	120,459	70,657	185,193	221,555
REFCORP assessments	22,125	12,978	34,015	40,694
Affordable Housing Program assessments	9,834	5,768	15,118	18,086
Total Assessments	31,959	18,746	49,133	58,780
NET INCOME	\$ 88,500	\$ 51,911	\$ 136,060	\$ 162,775
RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME				
Net Income	\$ 88,500	\$ 51,911	\$ 136,060	\$ 162,775
Net nonrecurring items, net of amortization	327	931	2,402	1,650
Fair value adjustments, net	(25,504)	31,521	(7,552)	9,773
ADJUSTED NET INCOME	\$ 63,323	\$ 84,363	\$ 130,910	\$ 174,198
FINANCIAL RATIOS (ANNUALIZED)				
Adjusted Return on Equity	4.67%	5.44%	4.80%	5.46%
Dividend Rate	4.34%	5.58%	4.57%	5.62%
Potential Dividend Yield	4.75%	5.51%	4.89%	5.53%
Dividend Benchmark	2.91%	3.43%	2.96%	3.45%
Spread of Potential Dividend Yield to Dividend Benchmark	1.84%	2.08%	1.93%	2.08%

The financial information for the periods ended June 30, 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 and may also be obtained by calling 415.616.2610.

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Connie R. Wilhelm

David T. C. Wright

Charlene Gonzales Zettel

EXECUTIVE OFFICERS

Dean Schultz
President and Chief Executive Officer

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

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