

FEDERAL HOME LOAN BANK OF SAN FRANCISCO

2003 THIRD QUARTER REPORT

TO OUR MEMBERS

In the third quarter of 2003, the Federal Home Loan Bank of San Francisco achieved solid financial results. The Bank's dividend rate for the quarter was 4.18% (annualized), compared to 5.24% for the third 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 \$7.0 million of earnings to offset the potential future negative effects of SFAS 133, which reduced the third quarter dividend rate by 54 basis points.

The Bank measures its financial performance by comparing its potential dividend yield (current period earnings, excluding fair value adjustments and advance prepayment fees net of the amortization of current and prior period deferred items, 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 a strong 2.03% for the third quarter of 2003 and 1.79% for the third quarter of 2002.

As noted above, the Bank retained \$7.0 million in earnings to offset the potential future negative effects of SFAS 133. While the effects of SFAS 133 are primarily a matter of timing, 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 help address this possibility, the Bank's current retained earnings and dividend policy provides for the accumulation of an additional \$50.0 million in restricted retained earnings over the course of seven quarters, starting in the second quarter of 2003.

Net income for the third quarter totaled \$126.8 million, an increase of \$53.4 million, or 73%, relative to the same period in 2002. This increase was due to the net effect of fair value adjustments made in accordance with SFAS 133, which resulted in a net gain of \$63.6 million, net of applicable assessments, for the third quarter of 2003, compared to a net loss of \$2.0 million for the year-earlier period. In anticipation of the future reversal of the net gains experienced in the third quarter of 2003, the Bank restricted an equivalent amount of retained earnings.

Excluding the net effects of SFAS 133 and certain other items, adjusted net income for the quarter was \$60.7 million, a decrease of \$16.3 million, or 21%, relative to the third 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 because of accelerated prepayments of higher yielding fixed-rate securities).

At September 30, 2003, the Bank had \$82.0 billion in advances outstanding, an increase of \$0.7 billion, or 1%, relative to December 31, 2002. In all, 115 members increased their Bank borrowings during the first nine months of 2003, while 77 members reduced their borrowings.

Member participation in the Mortgage Partnership Finance® Program continues to grow. As of September 30, 2003, mortgage loans held by the Bank reached \$5.2 billion, an increase of \$4.9 billion relative to yearend 2002.

Total assets at September 30, 2003, were \$115.7 billion, a decrease of \$0.5 billion relative to December 31, 2002. For the first nine months of the year, held-to-maturity securities decreased \$1.7 billion, securities purchased under agreements to resell decreased \$2.2 billion, interest-bearing deposits in banks decreased \$1.6 billion, and Federal funds sold decreased \$1.0 billion.

The Bank has established April 1, 2004, as the implementation date for its Capital Plan. In early November, the Bank provided members with an information statement that includes comprehensive disclosures about the Bank and the Capital Plan.

During the third quarter, several events sparked a wave of media interest in the investment policies, financial performance, financial disclosures, and regulatory structure of the housing GSEs. I want to assure you that the Bank is continuing to maintain its stringent approach to credit and interest rate risk management. The Bank is also committed to complete and effective disclosure of information to investors. The Bank is continuing to work with the SEC to resolve a variety of reporting issues and create a regulatory environment that will allow all 12 FHLBanks to embrace voluntary registration of their equity under the Securities Exchange Act of 1934. In addition, the Bank endorses the establishment of a single independent regulator for the housing GSEs under the U.S. Treasury Department, one that recognizes and supports the FHLBanks' housing finance mission, cooperative structure, and unique business model. As always, our goal is to preserve the safety and stability of the Bank and the FHLBank System while continuing to fulfill our public policy mission by providing you with products and services that help you meet the credit needs of your communities.

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," "can," "could," 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

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STATEMENTS OF CONDITION

(IN THOUSANDS-EXCEPT PAR VALUE)	SEPTEMBER 30, 2003 (UNAUDITED)	DECEMBER 31, 2002	SEPTEMBER 30, 2002 (UNAUDITED)
ASSETS			
Cash and due from banks	\$ 85,028	\$ 8,759	\$ 3,042
Deposits for mortgage loan program with other Federal Home Loan Bank	13,942	58,113	3,649
Interest-bearing deposits in banks	3,266,000	4,834,000	5,323,000
Securities purchased under agreements to resell	2,200,000	4,400,000	2,100,000
Federal funds sold	5,019,500	6,068,000	6,041,000
Held-to-maturity securities (\$205,478, \$250,007, \$294,569, respectively, were pledged as collateral)	16,203,115	17,878,844	18,883,209
Held-at-fair-value securities	1,103,133	533,090	553,241
Advances	81,983,084	81,237,041	86,017,919
Mortgage loans, net of allowance for credit losses on mortgage loans of \$0, \$180, and \$0, respectively	5,177,493	262,426	38,504
Accrued interest receivable	199,190	285,055	319,242
Premises and equipment, net	8,584	7,343	6,113
Derivative assets	347,487	518,734	551,745
Other assets	56,896	38,076	39,430
Total Assets	\$115,663,452	\$116,129,481	\$119,880,094
LIABILITIES AND CAPITAL			
Liabilities:			
Deposits:			
Demand and overnight	\$ 801,879	\$ 352,344	\$ 344,131
Term	45,500	34,510	55,290
Other	93,578	19,785	107,508
Total deposits	940,957	406,639	506,929
Borrowings:			
Other borrowings	—	525,000	53,000
Total borrowings	—	525,000	53,000
Consolidated obligations, net:			
Bonds	86,141,987	95,821,797	98,444,087
Discount notes	21,849,546	12,446,816	12,837,564
Total consolidated obligations	107,991,533	108,268,613	111,281,651
Accrued interest payable	571,932	715,620	772,135
Affordable Housing Program	140,670	131,706	136,504
Payable to REFCORP	31,697	14,012	18,315
Derivative liabilities	273,441	345,865	383,118
Other liabilities	137,681	37,328	790,217
Total Liabilities	110,087,911	110,444,783	113,941,869
Capital:			
Capital stock (\$100 par value) issued and outstanding	5,482,632	5,585,988	5,895,637
Retained earnings	112,064	100,978	44,931
Accumulated other comprehensive loss:			
Unrecognized net loss related to hedging activities	(19,155)	(2,268)	(2,343)
Total Capital	5,575,541	5,684,698	5,938,225
Total Liabilities and Capital	\$115,663,452	\$116,129,481	\$119,880,094

The financial information as of September 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 THIRD QUARTER REPORT

STATEMENTS OF INCOME

(IN THOUSANDS)	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPT 30, 2003 (UNAUDITED)	SEPT 30, 2002 (UNAUDITED)	SEPT 30, 2003 (UNAUDITED)	SEPT 30, 2002 (UNAUDITED)
INTEREST INCOME:				
Advances	\$ 243,272	\$ 436,945	\$ 849,173	\$ 1,414,400
Interest-bearing deposits in banks	7,612	20,102	33,212	59,381
Deposits for mortgage loan program with other Federal Home Loan Bank	22	19	125	27
Securities purchased under agreements to resell	6,837	15,612	23,186	36,697
Federal funds sold	17,642	26,665	57,268	92,805
Held-to-maturity securities	135,781	207,774	453,198	628,718
Held-at-fair-value securities	3,067	2,733	8,448	8,392
Mortgage loans	34,079	195	64,456	222
Loans to other Federal Home Loan Banks	47	42	120	190
Total Interest Income	448,359	710,087	1,489,186	2,240,832
INTEREST EXPENSE:				
Consolidated obligations	353,684	586,548	1,193,073	1,852,809
Deposits	720	2,036	2,763	5,957
Borrowings from other Federal Home Loan Banks	1	—	6	67
Other borrowings	22	26	78	101
Total Interest Expense	354,427	588,610	1,195,920	1,858,934
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	93,932	121,477	293,266	381,898
Provision for/(reduction of) credit losses on mortgage loans	—	23	(180)	27
NET INTEREST INCOME	93,932	121,454	293,446	381,871
OTHER INCOME/(LOSS):				
Prepayment fees	5,419	1,071	8,528	3,724
Services to members	225	207	661	649
Net (loss)/gain on held-at-fair-value securities	(10,504)	18,199	(8,468)	23,550
Net gain/(loss) on derivatives and hedging activities	96,938	(17,170)	104,346	(37,410)
Other, net	1,245	868	2,904	2,676
Total Other Income/(Loss)	93,323	3,175	107,971	(6,811)
OTHER EXPENSE:				
Operating expense	12,951	13,368	38,594	37,895
Federal Housing Finance Board	1,117	1,486	3,351	4,169
Office of Finance	614	535	1,706	2,201
Arbitration award	—	9,395	—	9,395
Total Other Expense	14,682	24,784	43,651	53,660
INCOME BEFORE ASSESSMENTS	172,573	99,845	357,766	321,400
REFCORP assessments	31,697	18,339	65,712	59,033
Affordable Housing Program assessments	14,087	8,151	29,205	26,237
Total Assessments	45,784	26,490	94,917	85,270
NET INCOME	\$ 126,789	\$ 73,355	\$ 262,849	\$ 236,130
RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME				
Net Income	\$ 126,789	\$ 73,355	\$ 262,849	\$ 236,130
Net nonrecurring items, net of amortization	(2,427)	1,701	(25)	3,351
Fair value adjustments, net	(63,626)	2,027	(71,179)	11,800
ADJUSTED NET INCOME	\$ 60,736	\$ 77,083	\$ 191,645	\$ 251,281
FINANCIAL RATIOS (ANNUALIZED)				
Adjusted Return on Equity	4.64%	5.16%	4.74%	5.36%
Dividend Rate	4.18%	5.24%	4.44%	5.50%
Potential Dividend Yield	4.71%	5.16%	4.83%	5.44%
Dividend Benchmark	2.68%	3.37%	2.86%	3.42%
Spread of Potential Dividend Yield to Dividend Benchmark	2.03%	1.79%	1.97%	2.02%

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John T. Wasley

Connie R. Wilhelm

David T. C. Wright

Charlene Gonzales Zettel

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Chief Operating Officer*

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