Federal Home Loan Bank of San Francisco
2004 First Quarter Report

To Our Members

In the first quarter of 2004, the Federal Home Loan Bank of San Francisco maintained a strong financial performance, effectively fulfilled its housing finance mission, and continued to enhance services to members. Financial highlights for the quarter include:

- The annualized dividend rate was 3.95%.
- The spread of the potential dividend yield to the dividend benchmark was 1.93%.
- Net income was $46 million.
- Adjusted net income was $65 million.
- Total assets grew $15.9 billion, to $148.3 billion.
- The advances portfolio grew $14.0 billion, to $106.3 billion.

For a more complete discussion of our financial results, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations, which begins on page 3 of the 2004 First Quarter Report.

Once again, we demonstrated our ability to respond to members' changing funding needs. During the quarter, our four largest members increased their Bank borrowings significantly to fund asset growth. In all, 86 members increased their advance borrowings during the quarter, while 91 members decreased their advance borrowings.

On April 1, 2004, we implemented our capital plan. Four members chose to opt out of the plan. All other members participated in the exchange, which resulted in a small net increase of $179 million in the Bank's capital.

During the quarter, we announced a new recoverable grant fund to help members support economic development and affordable housing projects during the conception and early development phases—the Access to Housing and Economic Assistance for Development (AHEAD) Program. This year, we intend to award $200,000 in AHEAD grants to members working in partnership with community-based sponsors.

We also enhanced our members-only website with several new features during the quarter. Members can now use the web to transact selected Fixed Rate Credit advances, purchase additional stock to support an advance transaction, and access product strategy articles and financial services industry research.

We will be holding our 2004 member conference on September 12-13 in Carlsbad, California. Industry experts will share their insights on successful asset/liability management, the latest research on customer loyalty, merger and acquisition activity, and the risk outlook for real estate markets in our region. We will also update you on any new developments in the Federal Home Loan Bank System and here at the Bank. I encourage you to join us for an informative and enjoyable event.

Sincerely,

Dean Schultz
President and Chief Executive Officer

Federal Home Loan Bank of San Francisco
2004 First Quarter Report

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Financial Highlights

(Dollars in millions except per share amounts)	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Selected Balance Sheet Items					
Total Assets	$ 148,315	$ 132,390	$ 115,663	$ 106,307	$ 113,786
Advances	106,250	92,330	81,983	71,634	79,768
Mortgage Loans	6,431	6,445	5,177	2,390	1,680
Mortgage-Backed Securities	17,964	16,317	14,363	15,713	16,145
Capital	6,399	5,846	5,576	5,406	5,685
Quarterly Operating Results					
Net Interest Income	$ 117	$ 110	$ 106	$ 106	$ 108
Net Income	46	60	127	89	48
Net Income Per Share	0.77	1.10	2.48	1.65	0.87
Ratios					
Tangible Capital to Assets Ratio	4.32%	4.42%	4.84%	5.09%	5.00%
Net Interest Margin	0.33	0.35	0.41	0.38	0.39
Operating Expenses as a Percent of Average Assets	0.04	0.05	0.05	0.05	0.04
Return on Average Equity	3.00	4.22	9.62	6.53	3.45
Dividend Rate	3.95	3.85	4.18	4.34	4.80
Adjusted Quarterly Operating Results *					
Adjusted Net Income	$ 65	$ 60	$ 61	$ 63	$ 68
Adjusted Net Interest Margin**	0.29%	0.30%	0.36%	0.36%	0.37%
Adjusted Return on Average Equity	4.33	4.29	4.64	4.67	4.92
Potential Dividend Yield	4.39	4.34	4.71	4.75	5.02
Dividend Benchmark	2.46	2.58	2.68	2.91	3.00
Spread of Potential Dividend Yield to Dividend Benchmark	1.93	1.76	2.03	1.84	2.02
Reconciliation of Net Income to Adjusted Net Income					
Net Income	$ 46	$ 60	$ 127	$ 88	$ 48
Net (Gain)/Loss on Held-at-Fair-Value Securities	(3)	5	8	(2)	—
Net Loss/(Gain) on Derivatives and Hedging Activities	21	(4)	(71)	(23)	18
Other Adjustments	1	(1)	(3)	—	2
Adjusted Net Income	$ 65	$ 60	$ 61	$ 63	$ 68

* The Bank calculates adjusted financial performance measures to provide a more meaningful comparison of the Bank's financial results over time. These measures are not intended to be a presentation in accordance with generally accepted accounting principles. Adjusted financial performance measures exclude the effects of any current period fair value changes (net of applicable assessments) made in accordance with Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative*

Instruments and Hedging Activities, and fair value adjustments on held-at-fair value securities reclassified from held-to-maturity securities upon the adoption of SFAS 133 because these effects are generally expected to reverse over time. Adjusted financial performance measures also reflect earnings before advance prepayment fees and certain other gains and losses associated with advance prepayments, including certain gains and losses associated with the early retirement of debt, net of the current amortization of current and prior period items, in accordance with the Bank's retained earnings policy, in order to recognize prepayment fees, debt retirement gains and losses, and other transactions over the periods remaining through the related instruments' original maturity dates.

** Includes the interest income and expense on non-hedge qualifying derivatives that are economic hedges classified in other income in the Statements of Income.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements contained in this report, including statements describing the objectives, projections, estimates, or predictions of the future of the Bank, may be "forward-looking statements." These statements may use forward-looking terms, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The Bank cautions that by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: economic and market conditions; volatility of market prices, rates, and indices; political, legislative, regulatory, or judicial events; the Bank's new capital structure; membership changes; competitive forces; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; and timing and volume of market activity. This report should be read in conjunction with the Bank's interim financial statements and notes, which begin on page 24, and the Bank's 2003 Annual Report.

Financial Performance

The Bank seeks to maintain a balance between its public policy mission of supporting housing and community development and its ability to provide adequate returns on the capital supplied by its members. The Bank achieves this balance by delivering low-cost financing to help members meet the credit needs of their communities while paying members a market-rate dividend. The Bank's dividends are largely the result of earnings on the capital stock issued to its members, while net earnings on member advances, mortgage loans, mortgage-backed securities (MBS), and other investments are generally used to pay operating expenses and other costs (with additional earnings, if any, also contributing to the dividend or retained earnings).

The Bank's financial strategies are designed to enable the Bank to expand and contract its capital, assets, and liabilities in response to member credit needs and membership composition. The Bank invests member capital in high-quality, short- and intermediate-term financial assets. This strategy reduces the risk of market value loss if investments have to be liquidated for the redemption or repurchase of excess capital stock when a member reduces its use of Bank credit or withdraws from membership.

To measure its financial performance, the Bank compares the "potential dividend yield" on its capital stock to a dividend benchmark. The potential dividend yield is not intended to be a presentation in accordance with generally accepted accounting principles (GAAP). The potential dividend yield is current period earnings (excluding fair value adjustments, as explained below, and advance prepayment fees, net of the amortization of current and prior period prepayment fees and other deferred items, and any other restrictions to retained earnings) as a percentage of capital stock. The dividend benchmark reflects the Bank's capital investment strategy and is calculated as the average of two yields: the daily average of the overnight Federal funds effective rate and the four-year moving average of the four-year Treasury note yield. The difference between the potential dividend yield and the dividend benchmark represents the potential financial return on the members' investment in Bank capital stock relative to the return on a comparable investment in Federal funds and intermediate-term Treasury investments.

The Bank's potential dividend yield was 4.39% for the first quarter of 2004, a decrease of 63 basis points from 5.02% for the first quarter of 2003. The dividend benchmark was 2.46% for the first quarter of 2004, a decrease of 54 basis points from 3.00% for the same period of 2003. The decrease in the potential dividend yield in the first quarter of 2004 was primarily due to lower earnings on member capital resulting from declining market interest rates, as reflected in the dividend benchmark. The spread between the potential dividend yield and the dividend benchmark (dividend spread) was 1.93% for the first quarter of 2004, compared to 2.02% for the first quarter of 2003. The decrease in the dividend spread primarily reflects the lower average interest rate environment and narrower profit spreads on the advance and non-MBS investment portfolios.

Results of Operations

The following table presents average balances and yields of earning asset categories and the sources that fund those earning assets (liabilities and capital). It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (interest-bearing liabilities plus capital plus other interest-free liabilities that fund earning assets).

The primary source of Bank earnings is net interest income, which is the interest earned on advances, mortgage loans, investments, and invested capital less interest paid on consolidated obligations, deposits, and other borrowings. The net interest spread decreased 3 basis points, and the net interest margin decreased 6 basis points during the three months ended March 2004 compared to the same period in 2003, primarily because the yield on invested capital dropped 54 basis points.

Average Balance Sheets

(In millions)	March 31, 2004 Average Balance	March 31, 2004 Interest Income/ Expense	March 31, 2004 Average Yield	March 31, 2003 Average Balance	March 31, 2003 Interest Income/ Expense	March 31, 2003 Average Yield
	Three months ended					
Assets						
Interest-earning assets:						
Interest-bearing deposits in banks	$ 3,436	$ 9	1.05%	$ 4,004	$ 13	1.32%
Resale agreements	4,403	11	1.00	2,224	7	1.28
Federal funds sold	8,605	22	1.03	6,325	20	1.28
Held-to-maturity securities:						
Other investments	2,861	9	1.27	2,183	8	1.49
MBS	15,818	137	3.48	14,824	160	4.38
Held-at-fair-value securities	1,046	8	3.08	713	8	4.55
Mortgage loans	6,437	78	4.87	912	11	4.89
Advances[1]	99,215	310	1.26	82,706	320	1.57
Deposits for mortgage loan program with other FHLBank	5	—	0.84	16	—	1.28
Loans to other FHLBanks	15	—	1.09	19	—	1.08
Total interest-earning assets	141,841	584	1.66	113,926	547	1.95
Other assets[2]	2,033	—	—	2,976	—	
Total Assets	$ 143,874	$ 584	1.63%	$ 116,902	$ 547	1.90%
Liabilities and Capital						
Interest-bearing liabilities:						
Consolidated obligations:						
Bonds[1]	$ 98,627	$ 370	1.51%	$ 94,314	$ 390	1.68%
Discount notes[1]	36,622	96	1.05	13,760	47	1.39
Deposits	547	1	0.74	386	1	1.05
Borrowings from other FHLBanks	1	—	0.67	—	—	—
Other borrowings	3	—	1.22	9	—	0.87
Total interest-bearing liabilities	135,800	467	1.38	108,469	438	1.64
Other liabilities[2]	1,922	—	—	2,847	—	—
Total Liabilities	137,722	467	1.36	111,316	438	1.60
Capital	6,152	—	—	5,586	—	—
Total Liabilities and Capital	$ 143,874	$ 467	1.31%	$ 116,902	$ 438	1.52%
Net Interest Income		$ 117			$ 109	
Net Interest Spread			0.28%			0.31%
Net Interest Margin[3]			0.33%			0.39%
Total Average Assets/Capital Ratio	23.4x			20.9x		
Interest-bearing Assets/ Interest-bearing Liabilities	1.0x			1.1x		

1 Interest income/expense and average yields include the effect of associated interest rate exchange agreements.
2 Includes forward settling transactions and fair value adjustments in accordance with SFAS 133 for hedged cash items.
3 Net interest margin is net interest income divided by average interest-earning assets.

Changes in both volume and interest rates influence changes in net interest income and the net interest margin. The following table details the changes in interest income and interest expense.

Change in Net Interest Income: Rate/Volume Analysis
First Quarter 2004 Compared to First Quarter 2003

(In millions)	Increase/ (Decrease)	Attributable to Changes in[1] Average Volume	Average Yield
Interest-earning assets:			
Interest-bearing deposits in banks	$ (4.2)	$ (1.4)	$ (2.8)
Resale agreements	4.2	5.7	(1.5)
Federal funds sold	2.1	6.1	(4.0)
Held-to-maturity securities:			
Other securities	0.4	2.1	(1.7)
MBS	(22.7)	9.9	(32.6)
Held-at-fair-value securities	(0.1)	2.5	(2.6)
Mortgage loans	66.7	67.2	(0.5)
Advances[2]	(9.1)	54.3	(63.4)
Total interest-earning assets	37.3	146.4	(109.1)
Interest-bearing liabilities:			
Consolidated obligations:			
Bonds[2]	(20.5)	19.5	(40.0)
Discount notes[2]	49.2	60.3	(11.1)
Deposits	0.1	0.3	(0.2)
Total interest-bearing liabilities	28.8	80.1	(51.3)
Net interest income before mortgage loan loss provision	$ 8.5	$ 66.3	$ (57.8)

[1] Combined rate/volume variances, a third element of the calculation, are allocated to the rate and volume variances based on their relative size.

[2] Interest income/expense and average rates include the interest effect of associated interest rate exchange agreements.

Net Interest Income. Net interest income before mortgage loan loss provision was $117 million in the first quarter of 2004, an increase of $8 million, or 7%, from $109 million in the first quarter of 2003. The increase was primarily the result of a 25% increase in average interest-earning assets outstanding, including significant increases in the advance and mortgage loan portfolios, coupled with a 10% increase in average capital balances. These increases were partially offset by the lower interest rate environment during 2004 compared to 2003, which reduced the earnings on invested capital. The increases were also partially offset by narrower profit spreads on advances and non-MBS investments.

The net interest margin for the first quarter of 2004 decreased 6 basis points to 33 basis points compared to 39 basis points for the same period of 2003, primarily as a result of lower earnings on invested capital. The average yield on interest-earning assets in the first quarter of 2004 was 1.66%, compared to 1.95% in the same period of 2003, a decline of 29 basis points. Narrower profit spreads on advances and non-MBS investments also contributed to the decline of the net interest margin.

As discussed in Note 1 to the Financial Statements, the Bank reclassified realized gains and losses on stand-alone derivative instruments used in economic hedges from net interest income to other income, increasing net interest income and decreasing other income by $5 million in the first quarter of 2003. Economic hedges are hedges of an asset or liability that do not qualify for hedge accounting treatment under the provisions of Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, on January 1, 2001, and by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, on July 31, 2003 (together referred to as "SFAS 133").

Other Income/(Loss). Other income/(loss) was a net loss of $38 million in the first quarter of 2004, an increased loss of $10 million compared to a net loss of $28 million in the first quarter of 2003. This change was primarily due to fair value adjustments associated with derivatives and hedging activities in accordance with SFAS 133.

Under SFAS 133, the Bank is required to carry all of its derivative instruments on the balance sheet at fair value. If derivatives meet the hedging criteria (including effectiveness measures) specified in SFAS 133, the underlying hedged instruments may also be carried at fair value, so that some or all of the unrealized gain or loss recognized on the derivative is offset by a corresponding unrealized gain or loss on the underlying hedged instrument. The unrealized gain or loss on the ineffective portion of all hedges, which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction, is recognized in current period earnings. During the first quarter of 2004, the ineffective portion of all hedges resulted in a net loss of $45 million, an increased loss of $15 million compared to the net loss of $30 million in the first quarter of 2003. These losses included net interest expense on stand-alone derivative instruments used in economic hedges of $17 million in the first quarter of 2004 and $6 million in the first quarter of 2003. The remaining losses in the first quarter of 2004 and 2003 were attributable to reductions in prior period net fair value gains of the callable bond portfolio that have offsetting callable interest rate swaps.

Because the SFAS 133 cumulative net unrealized gains or losses, including the ineffective portion, are primarily a matter of timing, the unrealized gains or losses will generally reverse over the remaining contractual terms to maturity of the hedged financial instruments and associated interest rate exchange agreements.

Net Income. Net income was $46 million in the first quarter of 2004, a decrease of $2 million, or 4%, from $48 million in the first quarter of 2003. Return on equity (ROE) was 3.00% in the first quarter of 2004, a decrease of 45 basis points from 3.45% in the first quarter of 2003. These decreases were primarily due to the decrease in other income resulting from the fair value adjustments associated with SFAS 133, partially offset in the first quarter of 2004 by the rise in net interest income.

Adjusted Financial Performance. The Bank uses adjusted financial performance measures to provide comparisons of the Bank's performance over time and to provide members and other parties with an enhanced understanding of the Bank's economic performance. These measures are not intended to be a presentation in accordance with GAAP. Adjusted financial performance measures exclude the effects of any current period fair value changes (net of applicable assessments) made in accordance with SFAS 133 and fair value adjustments on held-at-fair-value securities reclassified from held-to-maturity securities upon the adoption of SFAS 133 because these effects are generally expected to reverse over the remaining lives of the hedged assets, hedged liabilities, and derivatives. Adjusted financial performance measures also reflect earnings before advance prepayment fees and certain other gains and losses associated with advance prepayments (including certain gains and losses associated with the early retirement of debt), net of the current amortization of current and prior period prepayment fees and other deferred items, in accordance with the Bank's Retained Earnings and Dividend Policy. The Bank makes these adjustments in order to recognize prepayment fees, debt retirement gains and losses, and other transactions over the periods remaining through the related instruments' original maturity dates.

In addition to the above, adjusted net interest income includes the net interest expense on stand-alone derivative instruments used in economic hedges that are recorded in "Net loss on derivatives and hedging activities" in other income.

Adjusted net income in the first quarter of 2004 was $65 million, a decrease of $3 million, or 4%, from $68 million in the first quarter of 2003. Adjusted net interest income decreased $1 million, or 1%, from $104 million to $103 million. Adjusted ROE was 4.33%, a decrease of 59 basis points from 4.92%. These decreases were primarily due to declining market interest rates, which decreased earnings on invested member capital.

Adjusted Annual Operating Results and Other Non-GAAP Financial Measures
(In millions)

	Three months ended	
	March 31, 2004	March 31, 2003
Adjusted net income	$ 65	$ 68
Adjusted net interest margin	0.29%	0.37%
Adjusted return on average equity	4.33	4.92
Potential dividend yield	4.39	5.02
Dividend benchmark	2.46	3.00
Spread of potential dividend yield to dividend benchmark	1.93	2.02

Reconciliation of Net Interest Income to Adjusted Net Interest Income
(In millions)

	Three months ended	
	March 31, 2004	March 31, 2003
Net interest income	$ 117	$ 108
Amortization of deferred advance prepayments fees	3	2
Amortization of realized basis adjustments	—	(1)
Net interest expense on economic hedges	(17)	(5)
Adjusted net interest income	$ 103	$ 104

Reconciliation of Net Income to Adjusted Net Income
(In millions)

	Three months ended	
	March 31, 2004	March 31, 2003
Net income	$ 46	$ 48
Net gain on held-at-fair-value securities	(3)	—
Net loss on derivatives and hedging activities	21	18
Deferred advance prepayment fees, net	1	2
Adjusted net income	$ 65	$ 68

Dividends. The Bank's dividend rate for the first quarter of 2004 was 3.95%, compared to 4.80% in the first quarter of 2003. The decline in the dividend rate was primarily due to lower earnings on member capital resulting from declines in market interest rates. As discussed below, the Bank also retained $7 million in the first quarter of 2004 to provide for a build-up of retained earnings, which reduced the quarterly dividend rate by 47 basis points.

The Bank's Retained Earnings and Dividend Policy establishes the amounts to be retained in restricted retained earnings, subject to the dividend resolution adopted by the Board of Directors for each dividend period. In accordance with this policy, the Bank may be restricted from paying dividends if the Bank is not in compliance with any of its minimum capital requirements or if payment would cause the Bank to fail to meet any of its minimum capital requirements. In addition, the Bank will not pay dividends if any principal or interest due on any consolidated obligations has not been paid in full, or, under certain circumstances, if the Bank fails to satisfy certain liquidity requirements under applicable Finance Board regulations.

In accordance with the Retained Earnings and Dividend Policy, the Bank restricts retained earnings for that portion of income from prepayment fees that, if allocated on a pro rata basis over the original term to maturity of the advances prepaid, would be allocated to future dividend periods. Other gains and losses related to the termination of interest rate exchange agreements and early retirement of consolidated obligations associated with the prepaid advances are similarly treated. Retained earnings restricted in accordance with this provision totaled $9 million at March 31, 2004, and $10 million at December 31, 2003.

Also in accordance with the Retained Earnings and Dividend Policy, the Bank retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from SFAS 133. Retained earnings restricted in accordance with this provision totaled $68 million at March 31, 2004, and $87 million at December 31, 2003.

Because the SFAS 133 cumulative net unrealized gains or losses are primarily a matter of timing, the unrealized gains or losses will generally reverse over the remaining contractual terms to maturity of the hedged financial instruments and associated interest rate exchange agreements. Restricted retained earnings will be adjusted as these cumulative net unrealized gains are reversed, resulting in substantially the same potential dividend payout as there would have been without the effects of SFAS 133, provided that the cumulative net effect of SFAS 133 since inception is a net gain. If the cumulative net effect of SFAS 133 since inception is a net loss, however, the Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS 133. As a result, the future effects of SFAS 133 may cause the Bank to reduce or temporarily suspend paying dividends.

Effective April 1, 2003, the Board of Directors amended the Retained Earnings and Dividend Policy to provide for an additional build-up of retained earnings totaling $50 million (less any cumulative net fair value losses in net income resulting from SFAS 133, with a floor of zero) over seven quarters beginning in the second quarter of 2003. The Finance Board recently provided guidance to the Federal Home Loan Banks (FHLBanks) requiring an analysis of the adequacy of their retained earnings and a plan to achieve a target level of retained earnings. Effective January 30, 2004, the Board of Directors further amended this provision of the Retained Earnings and Dividend Policy to provide for a build-up of retained earnings totaling $100 million (less any cumulative net fair value losses in net income resulting from SFAS 133, with a floor of zero) by the end of 2006. The retained earnings restricted in accordance with these provisions totaled $29 million at March 31, 2004, and $22 million at December 31, 2003.

The Bank's Board of Directors may declare and pay dividends only from retained earnings or current net earnings. There is no requirement that the Bank declare and pay any dividend. A decision by the Bank's

Board of Directors to declare or not declare a dividend is a purely discretionary matter and is subject to the requirements and restrictions of the FHLB Act and applicable Finance Board requirements and guidance.

All dividends except fractional shares were paid in the form of capital stock. The Bank has historically paid dividends, if declared, in stock form and intends to continue this practice.

Financial Condition

Total assets were $148.3 billion at March 31, 2004, an increase of $15.9 billion, or 12%, from $132.4 billion at December 31, 2003. Average total assets were $143.9 billion for the first quarter of 2004, an increase of $27.0 billion, or 23%, compared to $116.9 billion for the first quarter of 2003.

Segment Information

Management analyzes financial performance based on the net interest income of two operating segments: the advances-related business and the mortgage-related business.

Advances-Related Business. The advances-related business consists of advances to members, related financing and hedging instruments, liquidity and other non-MBS investments (which are associated with the Bank's role as a liquidity provider) and member capital. Net interest income for this segment, including the cash flows from associated interest rate exchange agreements, was $64 million in the first quarter of 2004, a decrease of $11 million, or 15%, from $75 million in the first quarter of 2003. This decrease was primarily due to the lower interest rate environment in the first quarter of 2004 and narrower profit spreads on advances relative to the first quarter of 2003. This segment represented 64% and 73% of total Bank net interest income, including the cash flows from associated interest rate exchange agreements, for the first quarter of 2004 and 2003, respectively. The balance of total assets associated with this segment increased to $123.9 billion at March 31, 2004, an increase of $14.3 billion, or 13%, from $109.6 billion at December 31, 2003.

Advances— Average advances were $99.2 billion for the first quarter of 2004, an increase of $16.5 billion, or 20%, from $82.7 billion for the first quarter of 2003. The increase in average advances reflected changes in members' balance sheets, particularly those of the largest members, whose mortgage originations and growth in other assets outpaced deposit growth during the latter part of 2003 and the first quarter of 2004.

Advances outstanding increased $14.0 billion, or 15%, to $106.3 billion at March 31, 2004, from $92.3 billion at December 31, 2003. Advances outstanding included fair value adjustments of $0.5 billion at March 31, 2004, and $0.4 billion at December 31, 2003.

The increase in advances outstanding at March 31, 2004, was primarily the result of higher demand from the Bank's four largest members to fund asset growth. In total, 86 members increased their advance borrowings during the quarter, while 91 members decreased their advance borrowings.

The composition of advances shifted during the quarter, as well. Short-term fixed rate advances grew by $16.8 billion, to $45.7 billion, and long-term fixed rate advances increased by $2.7 billion, to $25.3 billion at March 31, 2004. In contrast, short-term adjustable rate advances fell by $1.7 billion, to $3.0 billion, and long-term adjustable rate advances fell by $4.0 billion, to $31.7 billion at the end of the quarter.

Non-MBS Investments—The Bank's total non-MBS investment portfolio was $17.0 billion as of March 31, 2004, an increase of $0.3 billion, or 2%, from $16.7 billion at December 31, 2003. During the quarter, Federal funds sold increased $1.4 billion, housing finance agency bonds increased $0.3 billion, and loans to other FHLBanks increased $0.3 billion, while resale agreements decreased $1.5 billion and commercial paper decreased $0.3 billion. Non-MBS investments other than housing finance agency bonds generally have terms to maturity of three months or less to facilitate the Bank's role as a cost-effective provider of credit and liquidity to members.

Borrowings— Consistent with the increase in advances, total consolidated obligations funding the advances-related business increased $13.7 billion, or 13%, in the first quarter, to $117.5 billion at March 31, 2004, from $103.8 billion at December 31, 2003.

To meet the specific needs of certain investors, fixed and adjustable rate consolidated obligation bonds may contain embedded call options or other features that result in complex coupon payment terms. When such consolidated obligation bonds are issued, the Bank typically enters into interest rate exchange agreements simultaneously with features that offset the complex features of the bonds and, in effect, convert the bonds to conventional adjustable rate instruments tied to an index, primarily the London Interbank Offered Rate (LIBOR). During the first quarter of 2004, the Bank issued fixed rate callable bonds that were offset with interest rate exchange agreements with call features offsetting the call options embedded in the callable bonds. This combined financing structure enabled the Bank to meet its funding needs at costs not generally attainable solely through the issuance of non-callable debt. The Bank also uses fixed rate callable bonds to finance fixed rate callable advances, fixed rate MBS, and fixed rate mortgage loans.

The notional amount of interest rate exchange agreements associated with the advances-related business totaled $161.7 billion, of which $67.0 billion were hedging the advances and $94.7 billion were hedging the consolidated obligations funding the advances.

Mortgage-Related Business. The mortgage-related business consists of MBS investments, mortgage loans acquired through the Mortgage Partnership Finance® (MPF®) Program, and the consolidated obligations specifically identified as funding those assets and related hedging instruments. ("Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.) Net interest income for this segment is derived primarily from the difference, or spread, between the yield on the MBS securities and mortgage loans and the cost of the consolidated obligations funding those assets, including the cash flows from associated interest rate exchange agreements, less the provision for credit losses on mortgage loans. Net interest income was $36 million in the first quarter of 2004, an increase of $8 million, or 29%, from $28 million in the first quarter of 2003. The increase was primarily due to higher average balances, including a $5.5 billion increase in the mortgage loans portfolio, partially offset by the impact of the lower interest rate environment during the first quarter of 2004 relative to the first quarter of 2003. This segment represented 36% and 27% of total Bank net interest income, including the cash flows from associated interest rate exchange agreements, for the first quarter of 2004 and 2003, respectively.

MPF Program—Under the MPF Program, the Bank buys qualifying conventional conforming and government-guaranteed fixed rate mortgage loans from members and pays them a monthly credit enhancement fee for managing the credit risk of the loans. One or more of the other FHLBanks may participate in all or a portion of the loans purchased by the Bank.

The Bank held conventional fixed rate conforming mortgage loans totaling $6.4 billion at March 31, 2004, and $6.5 billion at December 31, 2003, which were purchased from eight participating member institutions.

The Bank periodically reviews its mortgage loan portfolio to identify probable losses within the portfolio and to determine the likelihood of collection of the portfolio. The Bank establishes an allowance for credit losses on the mortgage loan portfolio based on management's estimate of probable credit losses as of the balance sheet date.

The Bank's allowance for credit losses consists of two components. The first is a component that is assigned to any individual loan that is specifically identified as "impaired." A loan is considered impaired when it is reported 90 days or more past due or, based on current information and events, it is probable that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At March 31, 2004, the Bank had ten loans totaling $1 million classified as nonaccrual or impaired. Because the amount of credit enhancement and supplemental mortgage insurance associated with these loans was sufficient to cover the estimated losses on these loans, management determined that an allowance for credit losses was not required for these loans.

The second component of the Bank's allowance for credit losses is that portion assigned to loans that are not specifically identified as impaired, based on management's estimate of probable credit losses inherent in the portfolio. At March 31, 2004, the Bank established an allowance for credit losses of $192 thousand for the mortgage loan portfolio.

No mortgage loans were reported 90 days or more delinquent at December 31, 2003; no loans were in foreclosure or classified as nonaccrual or impaired during 2003; and no allowance for credit losses on mortgage loans was deemed necessary by management as of December 31, 2003.

MBS Investments—The Bank's MBS portfolio increased 10% in the first quarter of 2004, to $18.0 billion, or approximately 281% of capital, at March 31, 2004, from $16.3 billion, or approximately 279% of capital, at December 31, 2003. During the quarter, the Bank purchased $3.1 billion in MBS. However, as a result of relatively low interest rates, MBS principal payments totaled $1.5 billion. The increases in the MBS portfolio and in member capital resulted in balances that continued to be slightly below the regulatory maximum authorized level of 300% of capital. Management expects to continue to invest at this level in the future subject to the availability of MBS that meet the Bank's credit risk, interest rate risk, and expected profitability parameters.

The fixed rate, long-term MBS investments are subject to prepayment risk, and the adjustable rate long-term MBS investments are subject to interest rate cap risk. The Bank has managed these risks by (i) funding the fixed rate MBS with non-callable and callable debt, and (ii) purchasing certain MBS that are structured with interest rate exchange agreements, creating synthetic, floating rate assets that may have lifetime interest rate caps but do not have periodic interest rate caps.

Total consolidated obligations funding the mortgage-related business increased $1.6 billion, or 7%, to $24.4 billion at March 31, 2004, from $22.8 billion at December 31, 2003, paralleling the growth in MBS during the quarter.

In accordance with the provisions of SFAS 133, interest rate exchange agreements associated with held-to-maturity securities are non-hedge qualifying. The transition provisions of SFAS 133 allowed the Bank to transfer any securities classified as held-to-maturity to trading (or "held-at-fair-value"). The Bank transferred its portfolio of economically hedged MBS to the held-at-fair-value securities category on January 1, 2001, so that fair value gains or losses on these MBS will partly offset the losses or gains on the associated interest rate exchange agreements. During the first quarter of 2004 and 2003, this designation allowed the Bank to mark certain MBS to fair value (for a $4 million gain and a $415 thousand loss, respectively) to partially offset the mark-to-fair value of the associated interest rate exchange agreements (a $3 million loss and a $686 thousand gain, respectively), for net gains of $1 million and $271 thousand, respectively.

The notional amount of interest rate exchange agreements associated with the mortgage-related business totaled $8.0 billion, of which $0.4 billion were hedging specific MBS classified as held-at-fair-value and $7.6 billion were hedging the consolidated obligations funding the mortgage portfolio.

Capital

Capital and Capital Ratios. Average capital during the first quarter of 2004 was $6.2 billion, a 10% increase from $5.6 billion in the first quarter of 2003. This increase is consistent with the rise in average advances outstanding from the first quarter of 2003 through the first quarter of 2004, and primarily reflects capital stock purchases by new members and additional capital stock purchases by existing members to support additional borrowings during the period. This increase was net of redemptions of capital stock, which primarily resulted from the Bank's surplus capital stock repurchase policy. Surplus capital is defined as any excess stock holdings above 115% of a member's minimum capital stock requirement, generally excluding stock dividends earned and credited for the current year. In accordance with this policy, the Bank repurchased $115 million in surplus capital stock in April 2004 that was subject to repurchase as of March 31, 2004.

The Bank implemented its new capital plan on April 1, 2004, under which each member is required to hold Bank stock based on the amount of either (i) its residential mortgage loans and other collateral that may be pledged to the Bank as collateral or (ii) its outstanding Bank advances and mortgage loans sold to and held by the Bank. Members that opted not to participate in the capital plan were required to provide written notice on or before January 1, 2004, of their intention to withdraw from membership. The Bank received opt-out notices from four members, which had capital stock with a total par value of $16 million at March 31, 2004. All other members participated in the exchange, and outstanding shares of existing capital stock were automatically exchanged for Class B stock redeemable upon five years' notice to the Bank. The implementation of the capital plan resulted in a net $179 million increase in the Bank's capital. Provisions of the new capital plan are more fully discussed in the Bank's 2003 Annual Report in Note 13 to the Financial Statements.

Risk Management

The Bank's Board of Directors has adopted a Risk Management Policy and a Member Products Policy, which are reviewed regularly and updated at least annually. The Risk Management Policy establishes risk guidelines, limits, and procedures in accordance with Finance Board regulations, the Finance Board's Financial Management Policy, the risk profile established by the Board of Directors, and other applicable guidelines. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management" in the Bank's 2003 Annual Report.

Concentration Risk

For the advances-related business, at March 31, 2004, the Bank had a concentration of advances totaling $75.2 billion outstanding to three members, representing 71% of total advances outstanding, as presented below. Advances held by these three members generated approximately $0.2 billion or 55% of advances interest income for the first quarter of 2004.

Concentration of Advances
March 31, 2004
(In millions)

Name of Borrower	Advances Outstanding[1]
Washington Mutual Bank, FA	$ 43,608
Citibank (West), FSB	16,997
World Savings Bank, FSB	14,556
Subtotal	75,161
Other borrowers	30,565
Total	$ 105,726

[1] Member advance amounts and the total advance amounts are at par value, and the total advance amounts will not match amounts shown in the Statements of Condition. The difference between the par and book value amounts primarily relates to basis adjustments arising from hedges of advances under SFAS 133.

Because of this concentration in advances, the Bank has implemented specific credit and collateral review procedures for these members. In addition, the Bank analyzes the implications for its financial management and profitability if it were to lose one or more of these members.

If these members were to prepay the advances or repay the advances as they came due and no other advances were made to replace them, the Bank's assets would decrease significantly, and income could be adversely affected. The loss of a significant amount of advances could have a material adverse impact on the Bank's dividend until appropriate adjustments were made to the Bank's capital levels and operating expenses. The timing and magnitude of the adjustment period would depend on a number of factors, including: (i) the amount of any decreases in capital; (ii) the profitability of any loans that were repaid; (iii) the profitability of the Bank's investment portfolio; and (iv) the amount of outstanding advances remaining. As discussed in "Our Business Model" in the Bank's 2003 Annual Report, however, the Bank's financial strategies are designed to enable it to shrink and grow in response to changes in membership composition and member credit needs. Under the Bank's new capital plan, Class B stock is redeemable upon five years' notice. However, at its discretion, the Bank may repurchase excess Class B stock at any time before the five years have expired.

Credit Risk

Advances. The Bank closely monitors the creditworthiness of the institutions to which it lends funds. The Bank also places great importance on the quality of the assets that are pledged as collateral by its members. The Bank emphasizes credit monitoring and collateral asset review and valuation to manage the credit risk associated with its lending activities. It also has procedures to assess the mortgage underwriting and documentation standards of its borrowing members. In addition, the Bank has collateral policies and restricted lending procedures in place to manage its exposure to those members that experience difficulty in meeting their capital requirements or other standards of creditworthiness.

Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for credit losses on advances is deemed necessary by management.

MPF Program. The Bank and the member selling loans to the Bank under the MPF Program share in the credit risk of the loans as specified in the master agreement. These assets may have more credit risk than advances, even though the member provides credit enhancement to protect the Bank to an AA level.

The Bank provides for a loss allowance, net of credit enhancement, for any impaired loans in addition to estimates of other probable losses, and management has policies and procedures in place to appropriately manage the credit risk. The Bank bases the allowance for credit losses for the Bank's mortgage loan portfolio on management's estimate of probable credit losses in the portfolio as of the balance sheet date. The Bank performs periodic reviews of its portfolio to identify the probable losses within the portfolio. The overall allowance is determined by an analysis that includes consideration of observable data such as delinquency statistics, past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, and prevailing economic conditions, taking into account the credit enhancement.

The following table presents additional balance information on mortgage loan delinquencies.

(In millions)	March 31, 2004	December 31, 2003
30 days	$ 26	$ 35
60 days	1	1
90 days or more	1	—
Total delinquencies	$ 28	$ 36
Nonaccrual loans[1]	$ 1	$ —
Loans past due 90 days or more and still accruing interest	—	—
Delinquencies as a percent of total mortgage loans outstanding	0.44%	0.56%
Nonaccrual loans as a percent of total mortgage loans outstanding	0.02%	—

[1] The nonaccrual loans included five loans totaling $333 thousand that were undergoing foreclosure or bankruptcy as of March 31, 2004.

For the three months ended March 31, 2004, interest income that was contractually due but not received and interest income foregone on the nonaccrual loans was $14 thousand.

Investments. The Bank has adopted credit exposure limits for investments that promote diversification and liquidity. These policies restrict the amounts and terms of the Bank's investment holdings according to the Bank's own capital position as well as the capital and creditworthiness of the counterparty. The following tables present the Bank's investment credit exposure at the dates indicated, based on ratings provided by Moody's Investors Service, Standard and Poor's, or Fitch Ratings.

Investment Credit Exposure

March 31, 2004
(In millions)

	Credit Rating[1]			
Investment Type	AAA	AA	A	Total
Interest-bearing deposits in banks	$ —	$ 2,840	$ 494	$ 3,334
Securities purchased under agreements to resell[2]	3,650	—	—	3,650
Federal funds sold	—	6,303	485	6,788
Held-to-maturity securities:				
Commercial paper	749	—	—	749
Housing finance agency bonds	1,466	—	—	1,466
MBS	17,546	—	—	17,546
Total held-to-maturity securities	19,761	—	—	19,761
Held-at-fair-value securities:				
Housing finance agency bonds	682	—	—	682
MBS	418	—	—	418
Total held-at-fair-value securities	1,100	—	—	1,100
Total investments	$ 24,511	$ 9,143	$ 979	$ 34,633

December 31, 2003
(In millions)

	Credit Rating[1]			
Investment Type	AAA	AA	A	Total
Interest-bearing deposits in banks	$ —	$ 3,100	$ 187	$ 3,287
Securities purchased under agreements to resell[2]	5,100	—	—	5,100
Federal funds sold	—	5,167	267	5,434
Held-to-maturity securities:				
Commercial paper	742	300	—	1,042
Housing finance agency bonds	1,328	—	—	1,328
MBS	15,893	—	—	15,893
Total held-to-maturity securities	17,963	300	—	18,263
Held-at-fair-value securities:				
Housing finance agency bonds	493	—	—	493
MBS	424	—	—	424
Total held-at-fair-value securities	917	—	—	917
Total investments	$ 23,980	$ 8,567	$ 454	$ 33,001

1 All A-rated investments were with members.
2 Classified based on the credit rating of securities held as collateral.

Derivatives Counterparties. The Bank has also adopted credit policies and exposure limits for derivatives and off-balance sheet credit exposure. The Bank selects as derivatives counterparties only highly rated non-member derivatives dealers that meet the Bank's eligibility criteria. In addition, the Bank has entered into master netting arrangements and bilateral security agreements with all active non-member derivatives counterparties that provide for delivery of collateral at specified levels to limit net credit exposure to these derivatives. Under these policies and agreements, the amount of unsecured credit exposure to an individual counterparty is the lesser of (i) an amount commensurate with the counterparty's capital and its credit quality, as determined by rating agency credit ratings of the counterparty's debt securities or deposits, or (ii) an absolute credit exposure limit. The following tables present the Bank's credit exposure to its derivatives counterparties at the dates indicated.

Derivatives Counterparties Credit Exposure
March 31, 2004
(In millions)

Credit Rating	Notional Balance	Gross Credit Exposure	Exposure Collateralized	Net Unsecured Exposure
AA	$ 104,862	$ 166	$ 127	$ 39
A	63,872	218	200	18
Subtotal	168,734	384	327	57
Member institutions [1]	935	12	12	—
Total derivatives	$ 169,669	$ 396	$ 339	$ 57

December 31, 2003
(In millions)

Credit Rating	Notional Balance	Gross Credit Exposure	Exposure Collateralized	Net Unsecured Exposure
AA	$ 71,660	$ 101	$ 57	$ 44
A	54,621	155	149	6
Subtotal	126,281	256	206	50
Member institutions [1]	493	10	10	—
Total derivatives	$ 126,774	$ 266	$ 216	$ 50

[1] Collateral held with respect to interest rate exchange agreements with member institutions represents either collateral physically held by or on behalf of the Bank or collateral assigned to the Bank, as evidenced by a written security agreement, and held by the member institution for the benefit of the Bank.

Market Risk
The Bank's market risk management objective is to maintain a relatively low exposure of net equity value and future earnings (excluding the impact of SFAS 133) to changes in interest rates. This profile reflects the Bank's objective of maintaining a conservative asset-liability mix and its commitment to providing value to its members without subjecting their capital to significant interest rate risk.

Total Bank Market Risk.

Market Value of Equity Sensitivity—Management uses market value of equity sensitivity (the sensitivity of the net value of all assets, liabilities, and interest rate exchange agreements) to measure the Bank's exposure to changes in interest rates. Management maintains its market value of equity sensitivity within the limits specified by the Board of Directors in the Risk Management Policy primarily by managing the interest rate attributes of assets, liabilities, and interest rate exchange agreements.

At March 31, 2004, the estimated percentage change in the Bank's market value of equity was –3.2% if rates increased by 100 basis points, and +1.8% if interest rates decreased by 100 basis points. If interest rates had been 200 basis points higher at March 31, 2004, a 100-basis-point additional increase in interest rates would be expected to decrease the Bank's market value of equity by 4.5%. If interest rates had been 200 basis points lower at March 31, 2004 (interest rates cannot be less than zero), a 100-basis-point additional decline in interest rates would be expected to increase the Bank's market value of equity by 1.5%.

At December 31, 2003, the estimated percentage change in the Bank's market value of equity was –2.2% if rates increased by 100 basis points, and +1.2% if interest rates decreased by 100 basis points. If interest rates had been 200 basis points higher at December 31, 2003, a 100-basis-point additional increase in interest rates would be expected to decrease the Bank's market value of equity by 3.5%. If interest rates had been 200 basis points lower at December 31, 2003 (interest rates cannot be less than zero), a 100-basis-point additional decline in interest rates would be expected to increase the Bank's market value of equity by 1.0%.

The change in the sensitivity of the estimated market value of equity to changes in interest rates at March 31, 2004, compared to December 31, 2003, was due in part to the Bank's periodic reinvestment of capital into intermediate-term fixed rate assets during the first quarter of 2004 and in part to an increase in the sensitivity of the market value of the mortgage portfolio to changes in interest rates.

Net Interest Income Sensitivity—The Bank limits the sensitivity of projected net interest income through a policy limit on the adverse change in the potential dividend yield. The policy limits the adverse impact of a simulated plus or minus 200-basis-point instantaneous change in interest rates (interest rates cannot be less than zero) on the projected dividend yield, measured over a 12-month forecast period, to –175 basis points (–1.75%). Results of simulations as of March 31, 2004, showed that the adverse change in the projected potential dividend yield from an instantaneous and parallel plus or minus change of 200 basis points in interest rates was –95 basis points, well within the policy limit of –175 basis points.

Repricing Gap Analysis—Repricing gap analysis shows the interest rate sensitivity of assets, liabilities, and interest rate exchange agreements by term-to-maturity (fixed rate instruments) or repricing interval (adjustable rate instruments). The amounts shown in the following table represent the net difference between total asset and liability repricings, including the impact of interest rate exchange agreements, for a specified time period (the "periodic gap").

Repricing Gap Analysis

As of March 31, 2004

(In millions)

	Interest Rate Sensitivity Period			
	Less Than 6 Months	6 Months to 1 Year	1 to 5 Years	Over 5 Years
Advances-related business:				
Assets				
Investments	$ 16,988	$ —	$ —	$ —
Advances	66,249	23,824	14,518	1,659
Other Assets	682	—	—	—
Total Assets	83,919	23,824	14,518	1,659
Liabilities				
Consolidated obligations:				
Bonds	42,062	12,381	34,457	4,462
Discount notes	21,003	840	—	—
Deposits	1,314	—	—	—
Other liabilities	787	—	—	215
Total Liabilities	65,166	13,221	34,457	4,677
Interest rate exchange agreements	(15,176)	(10,085)	22,359	2,902
Periodic gap	3,577	518	2,420	(116)
Mortgage-related business:				
Assets				
MBS	8,615	1,661	4,837	2,851
Mortgage loans	642	455	2,139	3,195
Total Assets	9,257	2,116	6,976	6,046
Liabilities				
Consolidated obligations:				
Bonds	3,417	1,041	8,869	4,020
Discount notes	6,213	445	—	—
Other liabilities	390	—	—	—
Total Liabilities	10,020	1,486	8,869	4,020
Interest rate exchange agreements	53	—	1,135	(1,188)
Periodic gap	(710)	630	(758)	838
Total periodic gap	$ 2,867	$ 1,148	$ 1,662	$ 722

Duration Gap—Duration gap is a measure of market risk published by several large wholesale financial institutions. The duration gap is the difference between the estimated durations (market value sensitivity) of assets and liabilities (including the impact of interest rate exchange agreements) and reflects the extent to which estimated cash flows for assets and liabilities are matched. The Bank monitors and reports duration gap analysis at the total Bank level but does not have a policy limit. The total Bank's duration gap was 1.2 months as of March 31, 2004, and 0.6 months as of December 31, 2003.

Segment Market Risk. The financial performance and interest rate risks of each business segment are managed within prescribed management guidelines, which, when combined, are consistent with the total Bank policy limits.

Advances-Related Business—Interest rate risk arises from the advances-related business primarily through the investment of the Bank's member-contributed capital into fixed rate assets of targeted amounts and maturities. In general, advances create very little net interest rate risk for the Bank because most fixed rate advances with maturities greater than 3 months and advances with embedded options are hedged contemporaneously with an interest rate swap or option with terms comparable to the advance. The interest rate swaps and options generally are maintained as hedges for the life of the advances. These hedged advances effectively create a pool of variable rate assets, which, in combination with the strategy of raising debt swapped to variable rate liabilities, create an advances portfolio with low interest rate risk.

Non-MBS investments assets have maturities of less than 3 months or are variable rate investments. These investments are also an effective interest rate risk match with the Bank's funding that is swapped to a variable rate.

Mortgage-Related Business—The Bank's mortgage assets include MBS, of which most are classified as held-to-maturity and some are classified as held-at-fair-value, and mortgage loans purchased under the MPF Program. The Bank is exposed to interest rate risk from the mortgage-related business because the cash flows of the mortgage assets and the liabilities that fund them are not matched through time and across all possible interest rate scenarios because of the uncertainty of mortgage prepayments and the existence of interest rate caps on certain adjustable rate MBS**.**

The following tables present results of market value of equity sensitivity and net interest income sensitivity analyses attributable to the mortgage-related business as of March 31, 2004, and December 31, 2003.

Market Value of Equity Sensitivity

Percentage Change in Market Value of Bank Equity Attributable to the Mortgage-Related Business Per 100-Basis-Point Change in Interest Rates:

Interest Rate Scenario	March 31, 2004	December 31, 2003
Actual rates at dates indicated	-1.7%	-1.5%
Rates start 200 basis points higher	-2.8%	-2.4%
Rates start 200 basis points lower	-1.7%	-1.4%

Net Interest Income Sensitivity

Potential Dividend Yield Change Attributable to the Mortgage-Related Business for the Following 12-Month Period:

	March 31, 2004	December 31, 2003
Instantaneous +200-basis-point change	-0.13 %	-0.07%
Instantaneous –200-basis-point change	-0.49 %	-0.67%

Interest Rate Exchange Agreements. The Bank uses interest rate swaps, options to enter into interest rate swaps (swaptions), interest rate cap and floor agreements, callable and putable interest rate swaps, and futures and forward contracts (collectively, interest rate exchange agreements) to manage its exposure to changes in interest rates.

At March 31, 2004, the Bank had $169.7 billion total notional amount of interest rate exchange agreements outstanding, compared with $126.8 billion at December 31, 2003. The $42.9 billion increase in the notional amount of derivatives during the first quarter of 2004 is primarily due to (i) a $20.2 billion increase in interest rate swaps used to hedge the market risk of a significant amount of new short- and intermediate-term fixed rate advances made during the quarter, and (ii) a $21.9 billion increase in interest rate swaps that hedge various types of consolidated obligations issued during the first quarter. The notional amount serves as a basis for calculating periodic interest payments or cash flows received and paid.

The following table categorizes the notional amounts and estimated fair values of the Bank's interest rate exchange agreements, excluding accrued interest, and related hedged items by product and type of accounting treatment as of March 31, 2004.

Fair Value Gains / (Losses) of Derivatives, Hedged Items, and Held-At-Fair-Value Securities
March 31, 2004 *

		Cumulative Gain / (Loss)		
(In millions)	Notional Amount	Derivatives	Hedged Instruments	Difference
Qualifying for Hedge Accounting:				
Advances	$ 66,787	$ (516)	$ 517	$ 1
Callable bonds	36,941	27	23	50
Non-callable consolidated obligations	32,729	432	(430)	2
Mortgage asset funding	1,990	54	(53)	1
Subtotal	138,447	(3)	57	54
Not Qualifying for Hedge Accounting:				
Advances	224	1	—	1
Consolidated obligations	23,143	18	(19)	(1)
Intermediated	1,834	1	—	1
Mortgage assets:				
Mortgage asset funding	5,602	12	—	12
MBS – held-at-fair-value	388	(26)	26	—
MPF firm commitments	18	26	—	26
Subtotal	31,209	32	7	39
Total	169,656	$ 29	$ 64	93
Assessments				(25)
Fair value gain after assessments				$ 68
Other comprehensive income / (loss):				
Mortgage asset funding	13			$ (9)
Total	$ 169,669			

* The notional amounts outstanding are as of March 31, 2004, and the cumulative gains and losses are since the adoption of SFAS 133 through the period ended March 31, 2004.

The primary source of SFAS 133-related income volatility arises from hedging the callable consolidated obligation bonds to effectively create floating rate debt with uncertain maturities. Since the implementation of SFAS 133, these transactions have usually resulted in net gains because of the relatively low cost of this swapped debt compared to the estimated cost of comparable new swapped callable consolidated obligations. These net gains can be volatile from period to period as a result of changes in (i) interest rate spreads, (ii) the expected life of swapped callable debt due to changes in the absolute level of interest rates, and (iii) the implied volatility of interest rates.

The ongoing impact of SFAS 133 on the Bank cannot be predicted, and the Bank's retained earnings in the future may not be sufficient to offset the impact of SFAS 133. As a result, the effects of SFAS 133 may lead to increased volatility in future earnings, other comprehensive income, and dividends. Because the SFAS 133 cumulative net unrealized gains or losses are primarily a matter of timing, the unrealized gains or losses will generally reverse over the remaining contractual terms to maturity of the hedged financial instruments and associated interest rate exchange agreements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities (if applicable), and the reported amounts of income and expenses during the reported period. Although management believes these judgments, estimates, and assumptions to be reasonably accurate, actual results may differ.

The Bank has identified three accounting policies that it believes are critical because they require management to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies include estimating the allowance for credit losses on the advance and mortgage loan portfolios; estimating fair values on certain assets and liabilities, including investments classified as held-at-fair-value and all derivatives and associated hedged items accounted for in accordance with SFAS 133; and estimating the fair value of the collateral that members pledge for advance borrowings. These policies and the judgments, estimates and assumptions are described in greater detail in the Bank's 2003 Annual Report in Note 1 to the Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Polices and Estimates."

Recent Developments

Proposed Rule on Registration under the Securities Exchange Act of 1934. In 2003, the Finance Board published a proposed rule that would require the FHLBanks to voluntarily register a class of securities with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (1934 Act). At this time, the Finance Board has not taken any action on the proposed rule. It is uncertain at this time whether the FHLBanks will become subject to financial and operational reporting requirements under the 1934 Act in accordance with any Finance Board rule.

Proposed Changes to GSE Regulation. On April 1, 2004, the Senate Banking Committee approved legislation sponsored by Senator Shelby overhauling the regulation of Fannie Mae, Freddie Mac, and the FHLBanks (the "housing GSEs") by, among other things, establishing a new regulator for the housing GSEs. It is uncertain at this time whether there will be any final legislation affecting the FHLBanks, the other housing GSEs, or their regulators.

Composition of the Finance Board. The President designated Finance Board Director Alicia Castaneda as Chairman to replace John Korsmo, who resigned effective April 13, 2004.

Report of Independent Accountants

To Board of Directors of the Federal Home Loan Bank of San Francisco:

We have reviewed the accompanying Statement of Condition of Federal Home Loan Bank of San Francisco ("the Bank") as of March 31, 2004, and March 31, 2003, and the related Statement of Income for each of the three month periods ended March 31, 2004, and March 31, 2003, and the Statement of Capital accounts for the three month periods ended March 31, 2004, and March 31, 2003, and the Statement of Cash Flows for the three month periods ended March 31, 2004, and March 31, 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP
San Francisco, California
May 10, 2004

Statements of Condition

(In millions-except par value)	March 31, 2004 (Unaudited)	Dec. 31, 2003	March 31, 2003 (Unaudited)
Assets			
Cash and due from banks	$ 16	$ 18	$ 3
Interest-bearing deposits in banks	3,334	3,287	3,975
Deposits for mortgage loan program with other Federal Home Loan Bank	1	12	22
Securities purchased under agreements to resell	3,650	5,100	3,371
Federal funds sold	6,788	5,434	5,800
Held-to-maturity securities ($68, $127, $259, respectively, were pledged as collateral)	19,761	18,263	17,638
Held-at-fair-value securities	1,100	917	802
Advances	106,250	92,330	79,768
Mortgage loans held in portfolio, net of allowance for credit losses on mortgage loans of $0, $0, $1	6,431	6,445	1,680
Loans to other Federal Home Loan Banks	302	—	—
Accrued interest receivable	216	218	217
Premises and equipment, net	8	8	7
Derivative assets	396	266	465
Other assets	62	92	38
Total Assets	$ 148,315	$ 132,390	$ 113,786
Liabilities and Capital			
Liabilities:			
Deposits:			
Demand and overnight	$ 979	$ 832	$ 371
Term	180	66	38
Other	155	90	9
Total deposits	1,314	988	418
Consolidated obligations, net:			
Bonds	110,709	92,751	94,424
Discount notes	28,501	31,882	11,912
Total consolidated obligations	139,210	124,633	106,336
Accrued interest payable	628	528	639
Affordable Housing Program	126	135	131
Payable to REFCORP	11	16	12
Derivative liabilities	160	181	360
Other liabilities	467	63	205
Total Liabilities	141,916	126,544	108,101
Commitments and Contingencies: Note 11			
Capital:			
Capital stock ($100 par value) issued and outstanding: 63 shares, 57 shares, 57 shares, respectively	6,302	5,739	5,680
Retained earnings	106	119	9
Accumulated other comprehensive loss:			
Unrecognized net loss related to hedging activities	(9)	(12)	(4)
Total Capital	6,399	5,846	5,685
Total Liabilities and Capital	$ 148,315	$ 132,390	$ 113,786

The accompanying notes are an integral part of these financial statements.

Statements of Income

(Unaudited)

(In millions except per share amounts)	Three months ended March 31, 2004	Three months ended March 31, 2003
Interest Income:		
Advances	$ 310	$ 320
Interest-bearing deposits in banks	9	13
Securities purchased under agreements to resell	11	7
Federal funds sold	22	20
Held-to-maturity securities	146	168
Held-at-fair-value securities	8	8
Mortgage loans	78	11
Total Interest Income	584	547
Interest Expense:		
Consolidated obligations	466	437
Deposits	1	1
Total Interest Expense	467	438
Net Interest Income Before Mortgage Loan Loss Provision	117	109
Provision for credit losses on mortgage loans	—	1
Net Interest Income After Mortgage Loan Loss Provision	117	108
Other Income / (Loss):		
Prepayment fees	2	1
Net gain on held-at-fair-value securities	4	—
Net loss on derivatives and hedging activities	(45)	(30)
Other, net	1	1
Total Other Loss	(38)	(28)
Other Expense:		
Operating expense	14	13
Federal Housing Finance Board	1	1
Office of Finance	1	1
Total Other Expense	16	15
Income Before Assessments	63	65
REFCORP assessments	12	12
Affordable Housing Program assessments	5	5
Total Assessments	17	17
Net Income	$ 46	$ 48
Net income per share	$ 0.77	$ 0.87
Average shares outstanding	60	55

The accompanying notes are an integral part of these financial statements.

Statements of Capital Accounts

(Unaudited)

(In millions)	Capital Stock Shares	Capital Stock Par Value	Retained Earnings Restricted	Retained Earnings Unrestricted	Retained Earnings Total	Accumulated Other Comprehensive Income/(Loss)	Total Capital
Balance, December 31, 2002	56	$ 5,586	$ 26	$ 75	$ 101	$ (2)	$ 5,685
Issuance of capital stock	4	439					439
Redemption of capital stock	(4)	(485)					(485)
Comprehensive income:							
Net income				48	48		48
Other comprehensive income:							
Net change in period relating to hedging activities						(2)	(2)
Total comprehensive income							46
Transfers from restricted retained earnings			(17)	17	—		
Dividends on capital stock (4.80%)							
Cash payment							
Stock issued	1	140		(140)	(140)		
Balance, March 31, 2003	57	$ 5,680	$ 9	$ —	$ 9	$ (4)	$ 5,685
Balance, December 31, 2003	57	$ 5,739	$ 119	$ —	$ 119	$ (12)	$ 5,846
Issuance of capital stock	7	689					689
Redemption of capital stock	(2)	(185)					(185)
Comprehensive income:							
Net income				46	46		46
Other comprehensive income:							
Net amounts recognized as earnings						3	3
Net change in period relating to hedging activities						—	—
Total comprehensive income							49
Transfers from restricted retained earnings			(13)	13	—		
Dividends on capital stock (3.95%)							
Stock issued	1	59		(59)	(59)		
Balance, March 31, 2004	63	$ 6,302	$ 106	$ —	$ 106	$ (9)	$ 6,399

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(Unaudited)

(In millions)	Three months ended March 31, 2004	Three months ended March 31, 2003
Cash Flows from Operating Activities:		
Net Income	$ 46	$ 48
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Net discounts on consolidated obligations and investments	13	38
Net premiums on mortgage loans	3	1
Concessions on consolidated obligations	15	14
Bank premises and equipment	1	1
Deferred net losses on interest rate exchange agreements	1	—
Provision for credit losses on mortgage loans	—	1
Decrease in Affordable Housing Program (AHP) liability and discount on AHP advances	(9)	(1)
Decrease in REFCORP liability	(5)	(2)
Loss due to change in net fair value adjustment on derivative and hedging activities	141	19
Increase in held-at-fair-value securities	(182)	(269)
(Increase)/decrease in derivative asset accrued interest	(107)	15
(Decrease)/increase in derivative liability accrued interest	(86)	23
Decrease in accrued interest receivable	2	68
Increase/(decrease) in accrued interest payable	100	(76)
Decrease/(increase) in other assets	29	(2)
Increase/(decrease) in other liabilities	14	(4)
Total adjustments	(70)	(174)
Net cash used in operating activities	(24)	(126)
Cash Flows from Investing Activities:		
Net (increase)/decrease in interest-bearing deposits in banks	(47)	859
Net (increase)/decrease in Federal funds sold	(1,354)	268
Net decrease in securities purchased under agreements to resell	1,450	1,029
Net decrease in short-term held-to-maturity securities	298	412
Purchases of long-term held-to-maturity securities	(2,946)	(2,811)
Maturities of long-term held-to-maturity securities	1,535	2,812
Principal collected on advances	171,154	103,751
Advances made	(184,928)	(102,420)
Principal collected on mortgage loans	151	20
Purchases of mortgage loans	(140)	(1,439)
Net decrease in deposits for mortgage loan program with other Federal Home Loan Bank	11	36
Net increase in loans to other Federal Home Loan Banks	(302)	—
Net decrease/(increase) to premises and equipment	—	(1)
Net cash (used in)/provided by investing activities	(15,118)	2,516

Statements of Cash Flows

(Unaudited)

(In millions)	Three months ended March 31, 2004	March 31, 2003
Cash Flows from Financing Activities:		
Net increase in deposits	326	11
Net decrease in other borrowings	—	(525)
Net proceeds from sale of consolidated obligations:		
Bonds	33,700	34,687
Discount notes	64,597	32,749
Payments for maturing and retiring consolidated obligations:		
Bonds	(15,999)	(35,951)
Discount notes	(67,988)	(33,321)
Proceeds from issuance of capital stock	689	439
Payments for redemption of capital stock	(185)	(485)
Net cash provided by/(used in) financing activities	15,140	(2,396)
Net decrease in cash and cash equivalents	(2)	(6)
Cash and cash equivalents at beginning of year	18	9
Cash and cash equivalents at end of period	$ 16	$ 3
Supplemental Disclosure:		
Interest paid during the period	$ 320	$ 573

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

(Dollars in millions except per share amounts)

Note 1 – Summary of Significant Accounting Policies

The significant accounting policies and the financial condition and results of operations of the Bank as of December 31, 2003, are contained in the 2003 Annual Report. The unaudited first quarter 2004 financial statements should be read in conjunction with the 2003 Annual Report. The accompanying financial statements of the Bank contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform with generally accepted accounting principles ("GAAP"). The results of operations for the three months ended March 31, 2004, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if applicable, and the reported amounts of income and expenses during the reporting period. Changes in the estimates and assumptions could potentially affect the Bank's financial position and results of operations significantly. In addition, actual results could differ from these estimates.

Descriptions of the significant accounting policies of the Bank are included in Note 1 to the Financial Statements in the Bank's 2003 Annual Report. There have been no significant changes to these policies as of March 31, 2004.

Reclassifications. Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation. In particular, for the quarter ended March 31, 2003, the Bank reclassified realized gains and losses (net interest payments) on stand-alone derivative instruments used in economic hedges based on guidance provided by the Securities and Exchange Commission to users of derivative instruments. Economic hedges are hedges of an asset or liability that do not qualify for hedge accounting treatment under the provisions of Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* on January 1, 2001, and by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* on July 31, 2003 (together referred to as "SFAS 133"). Previously, realized gains and losses on stand-alone derivatives used in economic hedges were classified in "Net Interest Income Before Mortgage Loan Loss Provision," while unrealized gains and losses on these derivatives were recorded in "Net loss on derivatives and hedging activities" in other income. These amounts have been reclassified and are now both included in "Net loss on derivatives and hedging activities" for the quarter ended March 31, 2003. As a result of this reclassification, "Net Interest Income Before Mortgage Loan Loss Provision" changed from $104 to $109 for March 31, 2003. In addition, "Net loss on derivatives and hedging activities" changed from a loss of $25 to a loss of $30 for the quarter ended March 31, 2003.

Note 2 – Held-to-Maturity Securities

Held-to-maturity securities were as follows:

March 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 749	$ —	$ —	$ 749
Housing finance agency bonds	1,466	6	(4)	1,468
Subtotal	2,215	6	(4)	2,217
Mortgage-Backed Securities (MBS):				
U.S. government agency-guaranteed	1,245	22	(3)	1,264
Non-agency	16,301	85	(34)	16,352
Total MBS	17,546	107	(37)	17,616
Total	$ 19,761	$ 113	$ (41)	$ 19,833

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 1,042	$ —	$ —	$ 1,042
Housing finance agency bonds	1,328	6	(1)	1,333
Subtotal	2,370	6	(1)	2,375
MBS:				
U.S. government agency-guaranteed	1,180	22	(8)	1,194
Non-agency	14,713	50	(67)	14,696
Total MBS	15,893	72	(75)	15,890
Total	$ 18,263	$ 78	$ (76)	$ 18,265

Redemption Terms. The amortized cost and estimated fair value of certain securities by contractual maturity and MBS as of March 31, 2004, and December 31, 2003, are shown below. Expected maturities of certain securities and MBS will differ from contractual maturities because borrowers generally have the right to prepay obligations without prepayment fees.

March 31, 2004

Year of Maturity	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 749	$ 749
Due after one year through five years	48	48
Due after ten years	1,418	1,420
Subtotal	2,215	2,217
MBS:		
U.S. government agency-guaranteed	1,245	1,264
Non-agency	16,301	16,352
Total MBS	17,546	17,616
Total	$ 19,761	$ 19,833

December 31, 2003

Year of Maturity	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,042	$ 1,042
Due after ten years	1,328	1,333
Subtotal	2,370	2,375
MBS:		
U.S. government agency-guaranteed	1,180	1,194
Non-agency	14,713	14,696
Total MBS	15,893	15,890
Total	$ 18,263	$ 18,265

For the quarter ended March 31, 2004, the average yield on held-to-maturity securities due in one year or less was 1.04%, on those due after one year through five years was 1.26%, on those due after 10 years was 1.34%, on U.S. government agency-guaranteed MBS was 3.98%, and on non-agency issued MBS was 3.33%. For the year ended December 31, 2003, the average yield on held-to-maturity securities due in one year or less was 1.09%, on those due after 10 years was 1.37%, on U.S. government agency-guaranteed MBS was 4.16%, and on non-agency issued MBS was 3.45%. The amortized cost of the Bank's MBS classified as held-to-maturity included net premiums of $83 at March 31, 2004, and $76 at December 31, 2003.

Interest Rate Payment Terms. Interest rate payment terms for held-to-maturity securities at March 31, 2004, and December 31, 2003, are detailed in the following table:

	March 31, 2004	December 31, 2003
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed rate	$ 749	$ 1,042
Adjustable rate	1,466	1,328
Subtotal	2,215	2,370
Amortized cost of held-to-maturity MBS:		
Passthrough securities:		
Fixed rate	760	649
Adjustable rate	256	274
Collateralized mortgage obligations:		
Fixed rate	11,521	10,499
Adjustable rate	5,009	4,471
Subtotal	17,546	15,893
Total	$ 19,761	$ 18,263

Note 3 – Held-at-Fair-Value Securities

Held-at-fair-value securities were as follows:

	March 31, 2004	December 31, 2003
Housing finance agency bonds	$ 682	$ 493
MBS: U.S. government agency-guaranteed	418	424
Total	$ 1,100	$ 917

Net gains on held-at-fair-value securities were $4 for the quarter ended March 31, 2004, and were not material for the quarter ended March 31, 2003. These amounts represent the changes in the fair value of the securities during the reported periods. The average yields on held-at-fair-value securities were 2.94% and 3.36% for the periods ended March 31, 2004, and December 31, 2003, respectively.

Note 4 – Advances

Redemption Terms. The Bank had advances outstanding at interest rates ranging from 0.84% to 8.75% at March 31, 2004, and 0.75% to 8.75% at December 31, 2003, as summarized below.

	March 31, 2004		December 31, 2003	
Year of Maturity	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Overdrawn demand deposit accounts	$ —	3.05%	$ 2	2.94%
Due in 1 year or less	65,381	1.37	53,199	1.43
Due after 1 year through 2 years	11,019	1.92	12,370	1.88
Due after 2 years through 3 years	18,600	1.61	15,874	1.63
Due after 3 years through 4 years	4,221	2.49	3,944	2.51
Due after 4 years through 5 years	4,486	3.12	4,553	3.16
Thereafter	2,019	5.16	2,010	5.26
Subtotal	105,726	1.66%	91,952	1.74%
SFAS 133 valuation adjustments	515		367	
Deferred net loss on terminated interest rate exchange agreements	9		11	
Total	$ 106,250		$ 92,330	

Security Terms. The Bank lends to member financial institutions involved in housing finance that have a principal place of business in Arizona, California, or Nevada. The Bank is required by the Federal Home Loan Bank Act of 1932 (FHLB Act) to obtain sufficient collateral for advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans or MBS, cash or deposits in the Bank, and other eligible real estate-related assets as collateral for advances. The Bank may also accept secured small business, small farm, and small agribusiness loans as collateral from members that are community financial institutions (CFIs). For additional information on security terms, see Note 7 to the Financial Statements in the Bank's 2003 Annual Report.

Credit Risk. The Bank's potential credit risk from advances is concentrated in savings institutions. As of March 31, 2004, the Bank had a concentration of advances totaling $75,161 outstanding to three members, representing 71% of total outstanding advances (41%, 16%, and 14%, respectively). The interest income from advances to these members amounted to approximately $235 during the first quarter of 2004. The Bank held collateral with an estimated value in excess of advances to these institutions, and the Bank does not expect to incur any credit losses on these advances.

The Bank has never experienced any credit losses on advances to a member. Management has policies and procedures in place to manage the credit risk of advances. Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for losses on advances is deemed necessary by management.

Interest Rate Payment Terms. Interest rate payment terms for advances at March 31, 2004 and December 31, 2003, are detailed below:

	March 31, 2004	December 31, 2003
Par amount of advances:		
Fixed rate	$ 70,983	$ 51,547
Adjustable rate	34,743	40,405
Total	$ 105,726	$ 91,952

Note 5 – Mortgage Loans

Under the Mortgage Partnership Finance® (MPF®) Program, the Bank purchases qualifying mortgage loans from its participating members. ("Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.) The mortgage loans represent held-for-investment loans under the MPF Program, under which the Bank's members originate, service, and credit-enhance home mortgage loans that are owned, either in part or in full, by the Bank. The following table presents information as of March 31, 2004, and December 31, 2003, on mortgage loans, all of which are conventional, conforming fixed rate loans on single-family properties:

	March 31, 2003	December 31, 2004
Fixed rate medium-term mortgage loans	$ 2,282	$ 2,282
Fixed rate long-term mortgage loans	4,169	4,183
Unamortized net discounts	(20)	(20)
Total mortgage loans	$ 6,431	$ 6,445

Medium-term loans have contractual terms of 15 years or less, and long-term loans have contractual terms of more than 15 years.

The allowance for credit losses on the mortgage loan portfolio was as follows:

	Three months ended	
	March 31, 2004	March 31, 2003
Balance, beginning of the period	$ —	$ 0.2
Chargeoffs	—	—
Recoveries	—	—
Provision for credit losses	0.2	1.0
Balance, end of the period	$ 0.2	$ 1.2

The Bank established the allowance for credit losses on the mortgage loan portfolio based on management's estimate of probable credit losses, in addition to estimated losses on any impaired loans, as of the balance sheet date.

The Bank's allowance for credit losses consists of two components. The first is a component that is assigned to any individual loan that is specifically identified as "impaired." A loan is considered impaired when it is reported 90 days or more past due or, based on current information and events, it is probable that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At March 31, 2004, the Bank had ten loans totaling $1 classified as nonaccrual or impaired. Because the amount of credit enhancement and supplemental mortgage insurance associated with these loans was sufficient to cover the estimated losses on these loans, management determined that an allowance for credit losses was not required for these loans.

The remaining component of the Bank's allowance for credit losses is that portion assigned to loans that are not specifically identified as impaired, based on management's estimate of probable credit losses inherent in the portfolio as of that date. At March 31, 2004, the Bank established an allowance for credit losses of $192 thousand for the mortgage loan portfolio.

The Bank did not have any loans classified as nonaccrual or impaired, and no allowance for credit losses on mortgage loans was deemed necessary by management as of December 31, 2003.

Note 6 – Consolidated Obligations

Consolidated obligations are the joint and several obligations of the 12 Federal Home Loan Banks (FHLBanks) and consist of consolidated obligation bonds and discount notes. Consolidated obligations are jointly issued by the FHLBanks through the Office of Finance, which serves as their agent. The U.S. Secretary of the Treasury has oversight over the issuance of FHLBank debt through the Office of Finance.

Redemption Terms. The following is a summary of the Bank's participation in consolidated obligation bonds:

	March 31, 2004		December 31, 2003	
Year of Maturity	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Due in 1 year or less	$ 35,969	2.16%	$ 26,177	2.70%
Due after 1 year through 2 years	32,124	1.81	23,716	1.91
Due after 2 years through 3 years	15,408	2.71	14,516	2.91
Due after 3 years through 4 years	7,140	3.26	6,692	3.43
Due after 4 years through 5 years	9,578	3.41	10,194	3.37
Thereafter	10,067	4.41	11,282	4.57
Index amortizing notes	15	4.61	15	4.61
Subtotal	110,301	2.52%	92,592	2.88%
Bond premiums	76		74	
Bond discounts	(141)		(144)	
SFAS 133 valuation adjustments	473		229	
Total	$ 110,709		$ 92,751	

The Bank's participation in consolidated obligation bonds outstanding includes callable bonds of $40,920 at March 31, 2004, and $35,370 at December 31, 2003. Contemporaneous with such callable bond issuance, the

Bank usually enters into an interest rate swap (in which the Bank pays a variable rate and receives a fixed rate) with a call feature that mirrors the option embedded in the bond (a sold callable swap). The combined sold callable swap and callable bond enable the Bank to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt, while converting the Bank's own payment to an adjustable rate. The Bank also uses fixed rate callable bonds to finance fixed rate callable advances (see Note 4), fixed rate MBS, and fixed rate mortgage loans.

The Bank's participation in consolidated obligation bonds was as follows:

	March 31, 2004	December 31, 2003
Par amount of consolidated obligation bonds:		
Non-callable	$ 69,381	$ 57,222
Callable	40,920	35,370
Total par value	$ 110,301	$ 92,592

The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at March 31, 2004, and December 31, 2003, by the earlier of the year of contractual maturity or next call date:

Earlier of Year of Contractual Maturity or Next Call Date	March 31, 2004	December 31, 2003
Due in 1 year or less	$ 67,284	$ 56,717
Due after 1 year through 2 years	27,858	21,094
Due after 2 years through 3 years	8,271	8,412
Due after 3 years through 4 years	1,599	923
Due after 4 years through 5 years	3,518	4,030
Thereafter	1,756	1,401
Index amortizing notes	15	15
Total	$ 110,301	$ 92,592

Interest Rate Payment Terms. Interest rate payment terms for consolidated obligations at March 31, 2004, and December 31, 2003, are detailed in the following table:

	March 31, 2004	December 31, 2003
Par amount of consolidated obligations:		
Bonds:		
Fixed rate	$ 71,933	$ 61,576
Adjustable rate	30,709	23,429
Step-up	5,132	5,044
Fixed rate that converts to adjustable rate	456	325
Adjustable rate that converts to fixed rate	1,110	862
Comparative index	643	808
Zero-coupon	175	175
Inverse floaters	128	358
Index amortizing notes	15	15
Total bonds, par	110,301	92,592
Discount notes, par	28,552	31,932
Total consolidated obligations, par	$ 138,853	$ 124,524

The Bank's participation in consolidated obligation discount notes, all of which are due within one year, was as follows:

	March 31, 2004		December 31, 2003	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Par value	$ 28,552	1.03%	$ 31,932	1.05%
Discounts	(52)		(50)	
SFAS 133 valuation adjustments	1		—	
Total	$ 28,501		$ 31,882	

Note 7 – Capital

Capital Requirements. The Bank's new capital plan was implemented on April 1, 2004. To implement the capital plan, the Bank exchanged its current capital stock for new Class B stock. Under the capital plan, the Bank issues only Class B stock, with a par value of $100 per share, which may be redeemed (subject to certain conditions) upon five years' notice by the member to the Bank. However, at its discretion, the Bank may repurchase excess stock at any time before the five years have expired. The stock may be issued, exchanged, redeemed, and repurchased only at its stated par value. The Bank may only redeem or repurchase capital stock from a member if, following the repurchase or redemption, the member will continue to meet its minimum stock requirement and the Bank will continue to meet its regulatory requirements for total capital, leverage capital, and risk-based capital.

Members that opted not to participate in the capital plan implementation were required to provide written notice of their intention to withdraw from membership on or before January 1, 2004. The Bank received opt-out notices from four members, which had capital stock with a total par value of $16 at March 31, 2004. All other members participated in the exchange, and outstanding shares of existing capital stock were automatically exchanged for Class B stock redeemable upon five years' notice by the member to the Bank.

Capital requirements under the new plan are more fully discussed in Note 13 to the Financial Statements in the Bank's 2003 Annual Report.

Retained Earnings and Dividend Policy. The Bank has a Retained Earnings and Dividend Policy that establishes amounts to be retained in restricted retained earnings, subject to the dividend resolution adopted by the Board of Directors for each dividend period. In accordance with this policy, the Bank restricts retained earnings for that portion of income from prepayment fees that, if allocated on a pro rata basis over the original term to maturity of the advances prepaid, would be allocated to future dividend periods. Other gains and losses related to the termination of interest rate exchange agreements and early retirement of consolidated obligations associated with the prepaid advances are similarly treated. Retained earnings restricted in accordance with this provision totaled $9 at March 31, 2004, and $10 at December 31, 2003.

In accordance with the Retained Earnings and Dividend Policy, the Bank also retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) and any cumulative net gains in other comprehensive income resulting from SFAS 133. Retained earnings restricted in accordance with this provision totaled $68 at March 31, 2004, and $87 at December 31, 2003. (The Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS 133. As a result, the effect of SFAS 133 may lead to increased volatility in future earnings and dividends.)

Effective April 1, 2003, the Board of Directors amended the Retained Earnings and Dividend Policy to provide for a build-up of retained earnings totaling $50 (less any cumulative net fair value losses in net income resulting from SFAS 133, with a floor of zero) over seven quarters beginning in the second quarter of 2003. The Finance Board recently provided guidance to the FHLBanks requiring an analysis of the adequacy of their retained earnings and a plan to achieve a target level of retained earnings. Effective January 30, 2004, the Board of Directors further amended the Retained Earnings and Dividend Policy to provide for a build-up of retained earnings totaling $100 (less any cumulative net fair value losses in net income resulting from SFAS 133, with a floor of zero) by the end of 2006. At March 31, 2004, the retained earnings restricted in accordance with these provisions totaled $29.

The Bank's Board of Directors may declare and pay dividends only from retained earnings or current net earnings. There is no requirement that the Bank declare and pay any dividend. A decision by the Bank's Board of Directors to declare or not declare a dividend is a purely discretionary matter and is subject to the requirements and restrictions of the FHLB Act and applicable Finance Board requirements and guidance. The Bank has historically paid dividends on its stock in stock form and anticipates that any dividends will continue to be paid in stock form.

Surplus Capital Stock Repurchase Policy. The Bank's surplus capital stock repurchase policy allows the Bank to reduce its capital stock base if advances and mortgage loan balances decline. A member's surplus capital stock is defined as any excess stock holdings above 115% of the member's capital stock requirement, excluding stock dividends earned and credited for the current year. In accordance with this policy, the Bank repurchased $115 of surplus capital stock in April 2004 that was subject to repurchase as of March 31, 2004.

Concentration. As of March 31, 2004, the Bank had a concentration of capital stock totaling 41 million shares outstanding to three members, representing 65% of total capital stock outstanding (39%, 14%, and 12%, respectively).

Note 8 – Segment Information

Management analyzes financial performance based on the net interest income of two operating segments, advances-related business and mortgage-related business, based on the Bank's method of internal reporting. The advances-related business consists of advances and other credit products provided to members, related financing and hedging instruments, liquidity and other non-MBS investments associated with the Bank's role as a liquidity provider, and member capital. Net interest income for this segment is derived primarily from the difference, or spread, between the yield on all business activities in this segment and the cost of funding those activities, including earnings on invested member capital and the cash flows from associated interest rate exchange agreements. The mortgage-related business consists of MBS investments, mortgage loans acquired through the MPF Program, the consolidated obligations specifically identified as funding those assets, and related hedging instruments. Net interest income for this segment is derived primarily from the difference, or spread, between the yield on the MBS securities and mortgage loans and the cost of the consolidated obligations funding those assets, including the cash flows from associated interest rate exchange agreements, less the provision for credit losses on mortgage loans.

The following tables set forth the Bank's financial performance by operating segment for the three months ended March 31, 2004 and 2003. Interest income and interest expense associated with economic hedges are recorded in other income as "Net loss on derivatives and hedging activities."

Net Interest Income

March 31, 2004	Advances-Related Business	Mortgage-Related Business	Total
Net interest income including interest income and expense on economic hedges	$ 64	$ 36	$ 100
Interest (income)/expense on economic hedges not included in net interest income	(1)	18	17
Net Interest Income	$ 63	$ 54	$ 117

March 31, 2003	Advances-Related Business	Mortgage-Related Business	Total
Net interest income including interest income and expense on economic hedges	$ 75	$ 28	$ 103
Interest (income)/expense on economic hedges not included in net interest income	(2)	7	5
Net Interest Income	$ 73	$ 35	$ 108

The following table sets forth total assets by operating segment:

	Advances-Related Business	Mortgage-Related Business	Total Assets
March 31, 2004	$ 123,920	$ 24,395	$ 148,315
December 31, 2003	$ 109,628	$ 22,762	$ 132,390

Note 9 – Interest Rate Exchange Agreements

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The Bank had notional amounts outstanding of $169,669 at March 31, 2004, and $126,774 at December 31, 2003. The notional amount does not represent the exposure to credit loss. The Bank is subject to credit risk relating to the nonperformance by a counterparty to a non-exchange-traded interest rate exchange agreement. The amount potentially subject to credit loss is the estimated cost of replacing the favorable interest rate exchange agreement if the counterparty defaults; this amount is substantially less than the notional amount. However, based on management's credit analyses of Bank counterparties and on the Bank's bilateral netting arrangements and collateral requirements, no allowance for losses is deemed necessary by management.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (i.e., has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At March 31, 2004 and December 31, 2003, the Bank's maximum credit risk, as defined above, was estimated at $396 and $266, respectively, including $200 and $93 of net accrued interest receivable, respectively. Accrued interest receivables and payables and the legal right to offset assets and liabilities by counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty) are considered in determining the maximum credit risk. The Bank held investment grade securities with a fair value of $339 and $216 as collateral from counterparties as of March 31, 2004, and December 31, 2003, respectively. This collateral has not been sold or repledged. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and dealers or their affiliates buy, sell, and distribute consolidated obligations. Assets pledged as collateral by the Bank to these counterparties are more fully discussed in Note 11.

Intermediation. Interest rate exchange agreements in which the Bank is an intermediary may arise when the Bank enters into offsetting interest rate exchange agreements with members and other counterparties to meet the needs of members or when the Bank enters into interest rate exchange agreements to offset the economic effect of other interest rate exchange agreements that are no longer designated to advances, investments, or consolidated obligations. The notional principal of the interest rate exchange agreements in which the Bank was an intermediary was $1,834 at March 31, 2004, and $976 at December 31, 2003.

Accounting for Derivative Instruments and Hedging Activities. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in other comprehensive income are recognized as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current period earnings. Changes in the fair value of a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset/liability management are recorded each period in current earnings.

As a result of SFAS 133, for the three months ended March 31, 2004 and 2003, the Bank recorded net losses on derivatives and hedging activities of $45 and $30, respectively, in other income. Net losses on derivatives and hedging activities were as follows:

	Three months ended	
	March 31, 2004	March 31, 2003
Losses related to fair value hedge ineffectiveness	$ (37)	$ (20)
Gains/(losses) on economic hedges	9	(4)
Net interest expense on stand-alone derivative instruments used in economic hedges	(17)	(6)
Net losses on derivatives and hedging activities	$ (45)	$ (30)

The cumulative net losses on derivatives and hedging activities were $8 as of March 31, 2004, and $58 as of March 31, 2003, including cumulative net interest expense on stand-alone derivatives used in economic hedges of $89 as of March 31, 2004, and $34 as of March 31, 2003.

As of March 31, 2004, the deferred net gains/(losses) on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next 12 months were not material. The maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is less than three months.

Note 10 – Estimated Fair Values

The following estimated fair value amounts have been determined by the Bank using available market information and the Bank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the Bank as of March 31, 2004, and December 31, 2003. Although the Bank uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for a portion of the Bank's financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions. The fair value summary tables do not represent an estimate of the overall market value of the Bank as a going concern, which would take into account future business opportunities. The estimated fair values on the Bank's financial instruments are more fully discussed in Note 17 to the Financial Statements in the Bank's 2003 Annual Report.

The estimated fair values of the Bank's financial instruments at March 31, 2004, and December 31, 2003, were as follows:

Fair Value of Financial Instruments – March 31, 2004

	Carrying Value	Net Unrealized Gains/(Losses)	Estimated Fair Value
Assets			
Cash and due from banks	$ 16	$ —	$ 16
Deposits for mortgage loan program	1	—	1
Interest-bearing deposits in banks	3,334	—	3,334
Securities purchased under agreements to resell	3,650	—	3,650
Federal funds sold	6,788	—	6,788
Held-to-maturity securities	19,761	72	19,833
Held-at-fair-value securities	1,100	—	1,100
Advances	106,250	176	106,426
Mortgage loans, net of allowance for credit losses on mortgage loans	6,431	(61)	6,370
Loans to other Federal Home Loan Banks	302	—	302
Accrued interest receivable	216	—	216
Derivative assets	396	—	396
Other assets	70	(38)	32
Total	$ 148,315	$ 149	$ 148,464
Liabilities			
Deposits	$ 1,314	$ —	$ 1,314
Consolidated obligations:			
Bonds	110,709	(128)	110,837
Discount notes	28,501	1	28,500
Accrued interest payable	628	—	628
Derivative liabilities	160	—	160
Other liabilities	604	—	604
Total	$ 141,916	$ (127)	$ 142,043

Fair Value of Financial Instruments – December 31, 2003

	Carrying Value	Net Unrealized Gains/(Losses)	Estimated Fair Value
Assets			
Cash and due from banks	$ 18	$ —	$ 18
Deposits for mortgage loan program	12	—	12
Interest-bearing deposits in banks	3,287	—	3,287
Securities purchased under agreements to resell	5,100	—	5,100
Federal funds sold	5,434	—	5,434
Held-to-maturity securities	18,263	2	18,265
Held-at-fair-value securities	917	—	917
Advances	92,330	113	92,443
Mortgage loans, net of allowance for credit losses on mortgage loans	6,445	(132)	6,313
Accrued interest receivable	218	—	218
Derivative assets	266	—	266
Other assets	100	(38)	62
Total	$ 132,390	$ (55)	$ 132,335
Liabilities			
Deposits	$ 988	$ —	$ 988
Consolidated obligations:			
Bonds	92,751	44	92,707
Discount notes	31,882	—	31,882
Accrued interest payable	528	—	528
Derivative liabilities	181	—	181
Other liabilities	214	—	214
Total	$ 126,544	$ 44	$ 126,500

Note 11 – Commitments and Contingencies

All FHLBanks have joint and several liability for FHLBank consolidated obligations. Accordingly, if any FHLBank were unable to repay its participation in the consolidated obligations, the other FHLBanks could be required to repay all or a portion of that FHLBank's participation, as determined by the Finance Board. The Bank has never been required to repay any consolidated obligation on behalf of another FHLBank. In addition, at this time Bank management is not aware that any FHLBank is likely to be unable to repay its participation in the consolidated obligations. Accordingly, the Bank has not recognized a liability for its joint and several obligation related to other FHLBanks' participations in the consolidated obligations. The Bank's joint and several liability for FHLBank consolidated obligations is more fully discussed in Note 19 to the Financial Statements in the Bank's 2003 Annual Report.

Commitments that legally bind and obligate the Bank for additional advances totaled approximately $118 at March 31, 2004, and $419 at December 31, 2003. Commitments are generally for periods up to 12 months. Standby letters of credit are generally issued for a fee on behalf of members to support their obligations to third parties. If the Bank is required to make payment for a beneficiary's drawing, the amount is charged to the member's demand deposit account with the Bank or converted into a collateralized advance to the member. Outstanding standby letters of credit were approximately $949 at March 31, 2004, and $1,015 at December 31, 2003, and had original terms of 30 days to 10 years, with a final expiration in 2014. Unearned fees for transactions prior to March 31, 2004, as well as the value of the guarantees related to standby letters of credit entered into after 2003 are recorded in other liabilities and amounted to $2 at March 31, 2004. Based on management's credit analyses and collateral requirements, no allowance for losses is deemed necessary by management on these advance commitments and letters of credit. Advances funded under these advance commitments and letters of credit are fully collateralized at the time of issuance in a manner consistent with advances to members (see Note 4). The estimated fair value of commitments and letters of credit was immaterial as of March 31, 2004, and December 31, 2003.

Commitments that unconditionally obligate the Bank to purchase mortgage loans totaled $18 at March 31, 2004, and $5 at December 31, 2003. Commitments are generally for periods not to exceed 45 days. In accordance with SFAS 149, commitments entered after June 30, 2003, were recorded as derivatives at their fair value.

The Bank executes interest rate exchange agreements with major banks and broker-dealers that have long-term credit ratings of single-A or better from both Standard & Poor's and Moody's Investors Service. The Bank enters into bilateral security agreements with all counterparties. As of March 31, 2004, and December 31, 2003, the Bank had pledged as collateral securities with a fair value of $73 and $134, respectively, to broker-dealers that have a net credit risk exposure to the Bank related to interest rate exchange agreements.

The Bank is subject to various pending legal proceedings arising in the normal course of business. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Bank's financial condition or results of operations.

The Bank executed orders to issue $9,387 of consolidated obligations and entered into $7,849 of notional amount of interest rate exchange agreements that had traded but not yet settled at March 31, 2004.

Other commitments and contingencies are discussed in Notes 4, 6, 7, and 9.

Note 12 – Other

The table below discloses the largest categories included in operating expense.

	Three months ended	
	March 31, 2004	March 31, 2003
Compensation and benefits	$ 10	$ 9
Other	4	4
Total operating expense	$ 14	$ 13

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Chairman of the Board

Timothy R. Chrisman
Vice Chairman of the Board

Craig G. Blunden
James P. Giraldin
Kenneth R. Harder
Rick McGill
Monte L. Miller
Frank P. Pekny
John F. Robinson
Scott C. Syphax
John T. Wasley
Connie R. Wilhelm
Charlene Gonzales Zettel

Executive Officers

Dean Schultz
President and Chief Executive Officer

Ross Kari
Executive Vice President and Chief Operating Officer

Senior Vice Presidents

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David H. Martens
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Albert McCloskey
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Gerald A. Hinkle
Joseph L. Hladick
Joseph F. Humphrey
Jonathan D. Kibrick
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Michelle A. Meyer
Matthew M. Park
Patricia M. Remch
Michael Roth
Antonio D. Ruscitti
Suzanne Titus-Johnson
Curtis Tung
Anthony T. Wong
James E. Yacenda
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