

Federal Home Loan Bank  
of San Francisco

2003 ANNUAL REPORT

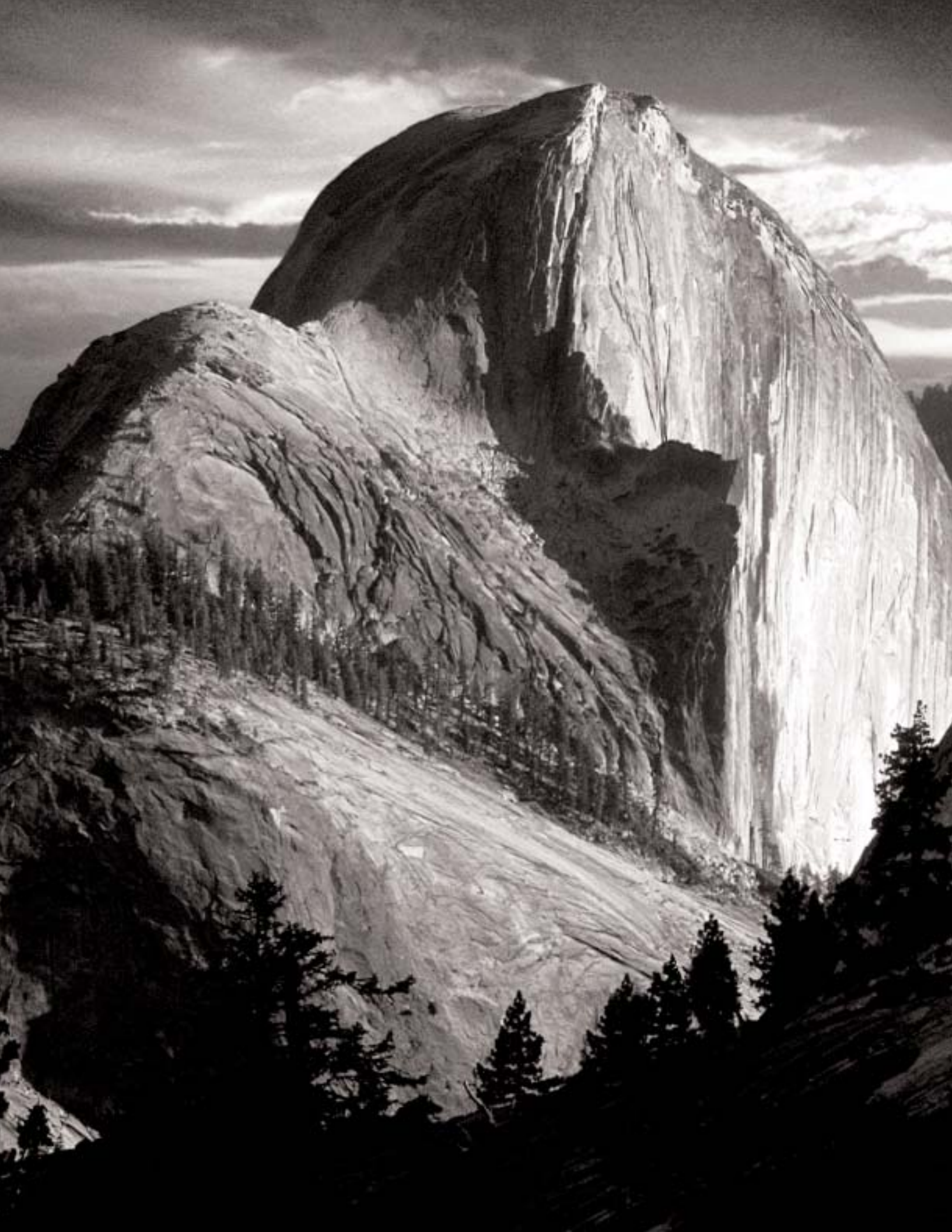


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At the Federal Home Loan Bank of San Francisco, we promote housing, homeownership, and community economic development by linking our members to the worldwide capital markets. Prompt, reliable access to low-cost funding enables our members—commercial banks, credit unions, savings institutions, thrift and loans, and insurance companies—to achieve their financial objectives and meet the credit needs of communities throughout Arizona, California, Nevada, and the other regions they serve.



stable funding source

JOHN POLEN  
PRESIDENT & CHIEF EXECUTIVE OFFICER  
MALAGA BANK, S.S.B.  
PALOS VERDES ESTATES, CA

“The Bank is the most dependable, accessible, straightforward source of funds we have. Knowing we can rely on Bank advances gives us an incredible ability to plan, and, if things change, the versatility of Bank borrowings allows us to alter our strategies. It’s a phenomenal resource.”

THE AAA CREDIT RATING ON FHLBANK SYSTEM DEBT ALLOWS THE BANK TO RAISE FUNDS AT VERY LOW RATES AND PASS ON THOSE RATES TO MEMBERS.

Malaga Bank, S.S.B., incorporates its access to Bank funding into its business plan at the beginning of each year. With a strong emphasis on multifamily lending, chiefly apartment and construction loans, Malaga Bank focuses on building its own portfolio, rather than on originating loans for sale to others. Malaga Bank uses fixed rate advances to match fund its loans and also borrows overnight to manage cash flows. “We can borrow advances for one day, one week, one month, or 30 years,” says John Polen. “With the Bank as a funding resource, we can offer any interest rate product our customer needs and readily finance our growth. Reliable access to advances gives us a powerful tool to be competitive in our market.”

## strategic risk management

MARC COOLEY  
SENIOR DIRECTOR OF FINANCIAL ANALYSIS  
ARIZONA FEDERAL CREDIT UNION  
PHOENIX, AZ

“We use Bank advances to fund our structured leverage program, which helps us offset the interest rate risk in our core balance sheet. This program also allows us to put our excess capital to work and generates additional income to support other activities, such as building branches and improving service for our members.”

Arizona Federal Credit Union serves all of Maricopa County, the City of Tucson, and specific low-income areas in Arizona. “Our focus is on providing retail consumer products for our members. We’re not driven to generate fee income,” says Marc Cooley. “The financial prosperity of our members is paramount.” Arizona FCU uses term fixed rate advances from the Bank to fund investments in mortgage-backed securities.

Because these investments behave differently than the credit union’s other assets in different interest rate environments, this strategy helps Arizona FCU manage the interest rate risk of its core lending business.

THE BANK’S DIVERSE ARRAY OF CREDIT PRODUCTS CAN BE CUSTOMIZED TO MEET A MEMBER’S FUNDING OR HEDGING REQUIREMENTS IN A VARIETY OF WAYS.





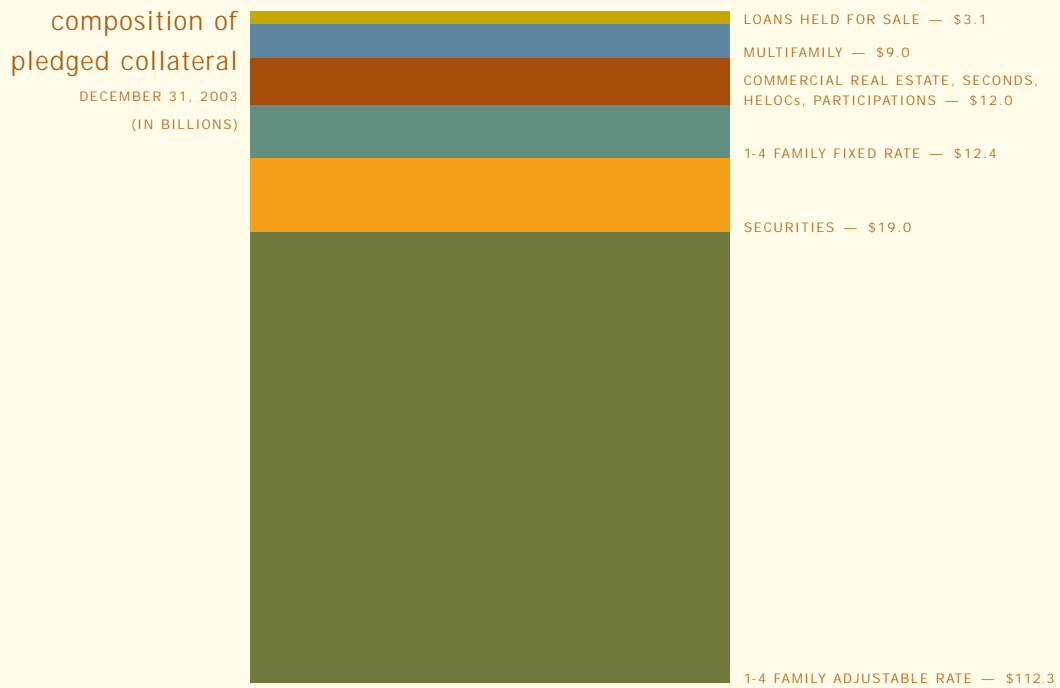
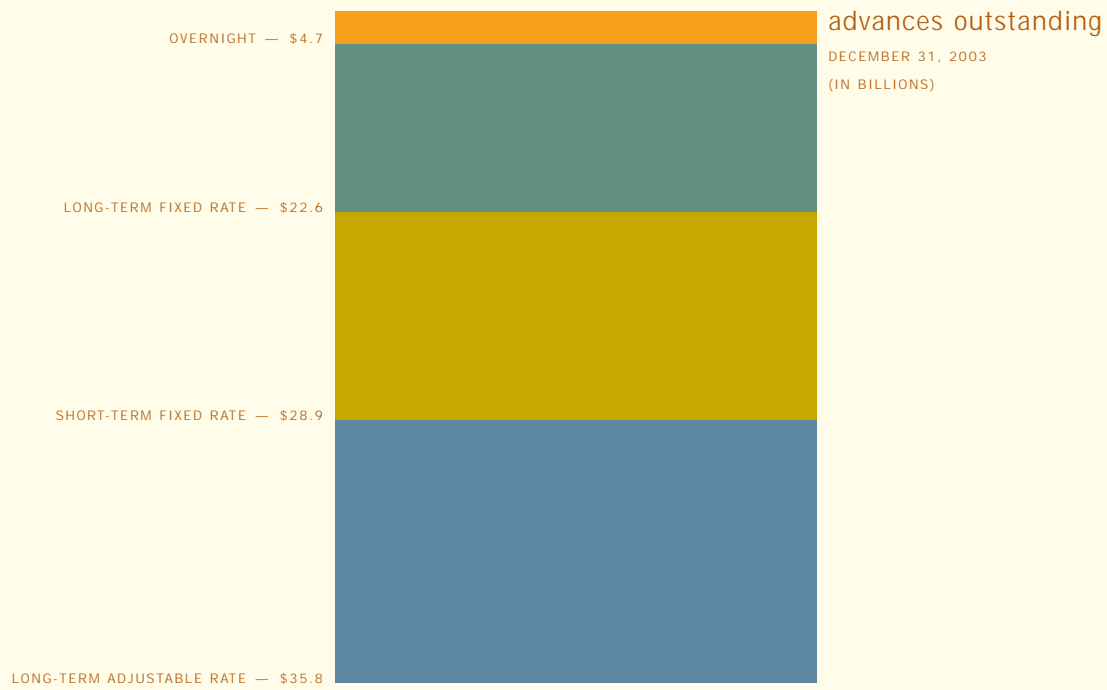
## vital community credit

LARRY SORENSEN  
EXECUTIVE VICE PRESIDENT  
SONOMA NATIONAL BANK  
SANTA ROSA, CA

“The Bank plays an integral role in helping us serve the financing needs of Sonoma County residents and businesses. Because we have close ties to our community, we are well positioned to meet local credit needs. Access to the Bank’s advance products helps us serve a wide range of borrowers and offer a variety of attractive loan products.”

IN 2003, THE BANK AWARDED \$47.9 MILLION IN AHP, IDEA, AND WISH GRANTS FOR AFFORDABLE HOUSING AND PROVIDED \$957.3 MILLION IN DISCOUNTED CIP AND ACE ADVANCES.

Sonoma National Bank is a traditional community bank emphasizing consumer and business banking, with a portfolio focused on residential and commercial real estate loans. “Bank advances supplement our funding resources and help provide pricing flexibility to be competitive in our market,” says Larry Sorensen. “This supports our mission of providing the products and services our community needs.” Sonoma National Bank uses adjustable rate, fixed rate, and amortizing advances. It also uses the Community Investment Program and Advances for Community Enterprise to obtain discounted advances for eligible uses, such as small business loans. “We are the quintessential community bank,” says Larry Sorenson, “and we will always have a hometown focus. Bank advances enable us to do more for our community.”



The Bank promotes housing, homeownership, and community economic development by providing a bridge to the capital markets for our members, supplying them with essential liquidity and risk management tools. This bridge is built on a foundation of financial strength. As this report shows, we are dedicated to maintaining that financial strength and preserving and enhancing the value of the Bank to our members and their communities.