

Management Report on Responsibility for Financial Reporting

FINANCIAL STATEMENTS

The management of the Federal Home Loan Bank of San Francisco (Bank) prepared the financial statements contained in the Annual Report in accordance with generally accepted accounting principles. Management has primary responsibility for the integrity and objectivity of the financial statements, which include amounts that are based on management's best estimates and judgments. Other information in the Annual Report is consistent with that contained in the financial statements.

The Bank's financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Management has made available to PricewaterhouseCoopers LLP all the Bank's financial records and related data, as well as the minutes of the meetings of the Bank's Board of Directors. The report of the independent accountants expresses an opinion as to the fairness of the financial position and results of operations of the Bank based on their audit conducted in accordance with generally accepted auditing standards.

INTERNAL CONTROL SYSTEMS

In meeting its responsibility for the integrity and objectivity of the financial statements, management of the Bank has established and relies upon a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal controls provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process.

Management monitors the system of internal controls for compliance, adequacy, and cost-effectiveness. Management believes that as of December 31, 2002, the Bank's system of internal controls was adequate to accomplish the objectives discussed herein.

The Bank maintains an internal auditing program and the Federal Housing Finance Board performs an examination function that independently assess the effectiveness of the Bank's internal controls and recommend possible improvements thereto. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors is composed of independent directors and oversees the Bank's financial reporting and system of internal controls. In addition to meeting regularly with the Bank's management, the Committee met with the Bank's Director of Internal Audit, Federal Housing Finance Board examiners, and independent accountants, without manage-

ment present, to discuss the results of their audits, their evaluations of the system of internal controls, and the overall quality of the Bank's financial reporting.

There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank assesses its internal control system in relation to, among other things, criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Bank believes that, as of December 31, 2002, its system of internal controls over financial reporting met those criteria.

CODE OF CONDUCT

Management also recognizes its responsibility for fostering a strong ethical climate so that the Bank's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Bank's code of corporate conduct, which is communicated to employees.



Dean Schultz
President and Chief Executive Officer



Ross Kari
Executive Vice President and Chief Operating Officer



Steven T. Honda
Senior Vice President and Chief Financial Officer



Vera Maytum
Senior Vice President and Controller

February 21, 2003

Audit Committee Report

The Audit Committee of the Board of Directors of the Federal Home Loan Bank of San Francisco (Bank) for 2003 is currently composed of seven directors, two of whom were appointed to the Board by the Federal Housing Finance Board and five of whom were elected to the Board by the members of the Bank. The Finance Board has appointed two new members to the Board of Directors and is expected to appoint one more, and two of these appointed members will also be appointed to serve on the Audit Committee.

The Audit Committee oversees the Bank's financial reporting process; reviews the programs and policies of the Bank designed to ensure compliance with applicable laws, regulations, and policies and monitors the results of these compliance efforts; and advises and assists the Board in fulfilling its oversight responsibilities relating to risk management, internal controls, the accounting policies and financial reporting and disclosure practices of the Bank, and the audit and examination of the Bank.

The Audit Committee has reviewed and discussed the audited financial statements with management. The Committee has discussed with the independent auditor the matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, *Communications with Audit Committees*, and SAS No. 90, *Audit Committee Communications*. The Committee

has also received the written disclosures and the letter from the independent auditor required by Independent Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and has discussed the auditor's independence with the auditor.

Based on the review and discussions referred to above, the Audit Committee recommends to the Board of Directors that the financial statements be included in the Annual Report.

Rick McGill, Chairman

Robert N. Barone

Craig G. Blunden

Kenneth R. Harder

Frank P. Pekny

Scott C. Syphax

David T. C. Wright

February 21, 2003

Report of Independent Accountants

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

In our opinion, the accompanying statements of condition and the related statements of income, capital, and cash flows present fairly, in all material respects, the financial position of the Federal Home Loan Bank of San Francisco (Bank) at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as part of our audit of the Bank's financial statements, we issued a separate report on compliance and on internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures

in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the FHLBank adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 138, on January 1, 2001.



PricewaterhouseCoopers LLP
San Francisco, California

February 21, 2003