

Examination Work Program
Interest Rate Risk Management
As of XXXXXX

1) *Organizational structure*

Evaluate the effectiveness of the functional organization, reporting structure, staffing, primary duties, responsibilities and technical expertise, segregation of duties, cross-training, coordination with other departments, and changes in the foregoing since the last examination. Evaluate vertical and horizontal channels of communications and information flows, as well as board of directors and management committee structure relevant to interest rate risk management.

2) *Establishment of risk tolerances and development of key policies and oversight by the board of directors. Adequacy of senior management oversight and the risk management function.*

Assess risk tolerances, the development of key interest rate risk management policies, and oversight by the board of directors. Evaluate the adequacy of senior management oversight over the interest rate risk management function. Review board and management committee meeting minutes, agenda, and decision-making process.

3) *Key FHLBank policies and procedures*

Identify and evaluate key FHLBank policies and procedures applicable to interest rate risk management, including the risk management policy, investment, funding and hedging activities, relevant accounting rules and other pronouncements, and business continuity and recovery planning. Assess the adequacy of policies, procedures and practices in the context of Finance Board regulations, accounting standards, board of directors directives and risk appetite, strategic and business plans, and industry best practices.

4) *Risk assessment under Part 917 and internal control evaluation under SARBOX*

Evaluate the effectiveness of the annual risk assessment under Part 917 and the internal control assessment under SARBOX applicable to interest rate risk management, as well as procedures implemented to periodically attest to the adequacy of the control environment, including board reviews and corrective actions on identified control weaknesses.

5) *Testing performed by external audit, internal audit or consultants*

Evaluate testing of controls over its interest rate risk management activities performed by the FHLBank's external auditors, internal auditors, or consultants. Review the audit plan, audit scope and frequency, the engagement letter, and audit workpapers where appropriate. Review audit exception tracking systems and management's corrective actions.

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6) Information technology and controls

Identify and assess the automated and manual systems and applicable controls utilized by the front office and back office functions for processing trades and debt issuances, as well as for measuring and producing reports of interest rate risk.

7) Identification and evaluation of controls and significant changes to the activity or function

Evaluate the workflow, analyses, and processes as well as controls, including the level, types, sources, and direction of interest rate risk, taking into account on- and off-balance sheet risk characteristics, and the quality of risk management. If applicable, conduct an assessment of any significant or anticipated changes to FHLBank funding and hedging strategies, product lines, trading volumes, and commitments since the last examination that may affect the FHLBank's interest rate risk profile.

8) Testing

Conduct testing as appropriate. The scope of testing should be based on the preliminary review of corporate governance, risk management, internal controls, and audit coverage. Testing may include verifying the accuracy of the FHLBank's risk position reports and FHLBank adherence to regulations and internal policy parameters, the effectiveness of manual and automated controls, the adequacy of risk tolerance limit structure and related analyses, and the appropriateness of funding and derivatives activities given the risk profile of the balance sheet.

9) Assessment of Risks

Summarize the results of the activity or function examined in a separate memorandum. The memorandum must articulate the risks and the management of those risks. It should also clearly and specifically describe the basis and analysis for the assessment. The memorandum should discuss the level of market risk (low, moderate, high); the direction of market risk (stable, decreasing, increasing); and the quality of market risk management (strong, adequate, weak). A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.

10) Items requiring follow-up at the next on-site visitation

Identify key issues that have been communicated to management (written or oral) that require follow-up during the next on-site visitation.