

Examination Work Program
Investment Portfolio 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.

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 market, credit and operational risk and financial performance tolerances, the development of key investment management policies, and oversight by the board of directors. Assess adequacy of senior management oversight of the investment function. Verify existence and assess adequacy of independent risk management function. Review board and senior management meeting minutes, agenda, and decision-making process.

3) *Key FHLBank policies and procedures*

Evaluate key FHLBank policies. The policies should address risk appetite, risk monitoring, and risk mitigation techniques. Particular attention should be on the depth and breadth of both risk measurement and monitoring. The policies should also address regulatory limits and accounting requirements. Review and evaluate both procedures used by investment management staff and the procedures followed by the risk management staff. Judge portfolio performance against risk tolerances and peers. Assess the thoroughness of management and board of directors reporting.

4) *Risk assessment under Part 917, model validation, as applicable, under Part 932, and internal control evaluation under SARBOX*

Evaluate the effectiveness of the annual risk assessment under Part 917, the model validation for investment market values, and the internal control assessment under SARBOX applicable to investment portfolio management, as well as procedures implemented to periodically attest to the adequacy of the control environment.

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

Evaluate testing performed by the FHLBank's external auditors, internal auditors or consultants of controls over its investment portfolio activities.

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6) Information technology and controls

Identify and assess the automated and manual systems and applicable controls utilized by the investment management function for processing, verifying, and settling transactions. Activities to review include the following: trade, trader, counterparty, regulatory, and bank-wide concentration limits, robustness of data environment, especially related to end-user computer application, authorized users, vendor technical support, and business continuity and recovery.

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 market, credit and operational risk, and the quality of risk management. Determine if these risks are measured thoroughly and include: individual positions, positions with common counterparty, products with common risk attributes such as collateral or documentation type, and concentrations. Assess whether these risks are measured both on a transaction basis and at the portfolio level. If applicable, conduct an assessment of any significant or anticipated changes to FHLBank investment portfolio management strategies since the last examination that may affect the FHLBank's risk profile.

8) Testing

Conduct transaction testing. The testing should include both long-term investment purchases and short-term trades, which have been executed since the previous examination. The choice of investments sampled should be risk-focused with the sample size dictated by the preliminary review of the changes to the size and composition of the investment portfolio, governance, risk management, internal controls and audit coverage. To the extent feasible, include in the sample investments purchased while on-site. Such an approach will allow for a review of the operational risks associated with transaction processing.

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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 types(s) of risk (market, credit, operational); the level of risk (low, moderate, high); the direction of the risk (stable, decreasing, increasing); and the quality of the 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.