

Examination Work Program
Derivatives
As of XXXXXX

1) *Organizational structure*

Evaluate the effectiveness of the FHLBank's functional organizational structure related to the execution of derivative transactions. Conclude on the adequacy of the reporting structure in place. Assess the adequacy of staffing and technical expertise of individuals responsible for the various aspects of entering into derivative transactions. Determine whether the primary duties and responsibilities of staff are clearly and appropriately defined. Determine whether the segregation of duties for those individuals involved in executing, confirming, recording and monitoring derivative transactions is appropriate. Evaluate changes instituted since the previous 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 risk tolerances and the development of management policies established for the FHLBank's derivatives transactions, as well as oversight by the board of directors in this area. Evaluate the adequacy of senior management oversight and the risk management function. Conclude as to the adequacy of information provided to senior management and the board of directors.

3) *Key FHLBank policies and procedures*

Identify and evaluate key FHLBank policies and procedures applicable to derivatives. Policies should establish clear parameters related to the overall level of interest rate risk and counterparty credit exposure the FHLBank is willing to assume. Determine how the FHLBank utilizes derivatives to comply with policy constraints.

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

Evaluate the effectiveness of the FHLBank's annual risk assessment completed for derivatives and hedging. Review the FHLBank's internal control assessment under SARBOX related to derivatives and hedging. Determine whether internal controls have been appropriately identified and conclude on the reasonableness of the FHLBank's determination of the adequacy of these controls.

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 related to the FHLBank's participation in derivatives transactions.

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6) Information technology and controls

Identify and assess the automated and manual systems and applicable controls utilized by various departments for processing derivatives transactions.

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

Evaluate the workflow and processes as well as key controls, including the level and direction of risk and the quality of risk management, for the derivatives management process. If applicable, conduct an assessment of any significant changes to the FHLBank's process of executing, recording and monitoring derivative transactions that have been implemented since the last examination or are being considered in the future that may affect the FHLBank's risk profile.

8) Testing

Conduct testing as appropriate. The scope of testing should be based on the preliminary review of governance, risk management, internal controls and audit coverage. A selection of various derivative transactions should be tested. Conclude as to the adequacy of documentation, the assessment of risks by FHLBank staff and the appropriateness of the transactions. Determine if established internal controls have been adhered to appropriately.

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