

Examination Work Program
Financial Condition and Performance
As of XXXXXX

An FHLBank's condition and performance rating is based upon an assessment of key financial condition and performance factors that are not directly addressed under the market, credit, and operational risk components of the FHLBank Rating System. However, because an institution's financial condition and performance is inextricably linked to the market, credit, and operational risks that it has undertaken and to its management of those risks, there is necessarily some overlap between an FHLBank's condition and performance rating and its ratings for market, credit, and operational risk.

Because the FHLBanks differ in portfolio composition, business strategy, and risk appetite, the interpretation of any particular performance measure must consider the particular FHLBank's operating strategy and risk profile. For example, both capital and profitability should be greater at FHLBanks with higher risk profiles than at FHLBanks with lower risk profiles. In other words, risk-adjusted returns are much more important than non-risk-adjusted returns. It is also useful to make two different relative comparisons. First, the current performance of a FHLBank can be compared with its recent past performance – is performance improving or deteriorating, how is the portfolio composition shifting, are the changes in performance metrics in a positive or negative direction. Second, an FHLBank can be compared with other FHLBanks that have similar business strategies.

In addition to the foregoing factors, an assessment of an FHLBank's financial condition and performance also takes into account the cooperative structure of the FHLBanks and the interplay between product pricing and dividends.

Under the FHLBank Rating System, in evaluating an FHLBank's financial condition and performance, consideration should be given to:

1) *Earnings and Profitability*

What are the level, trend, and stability of earnings relative operational, credit, and market risk exposure of the FHLBank? What are the risk-adjusted returns on assets and equity? What is the net interest spread? Is this stable, increasing, or declining? Are earnings particularly affected by a single factor? What is the quality of earnings, that is (a) the level of earnings generated by key business lines including advances, investments, and mortgages, and (b) the sustainability of the earnings? What are the net spreads by business line? Are these spreads sustainable or reasonable?

2) *Operating Efficiency*

What is the level of operating expenses in relation to earnings and total assets? Is the FHLBank making sufficient infrastructure investments? Is the FHLBank taking advantage of technological advances?

Examination Work Program
Financial Condition and Performance
As of XXXXXX

3) Capital, Retained Earnings, and Excess Stock

Are the capital and leverage ratios adequate relative to operational, credit, and market risk exposure? Are the rate of internal capital generation and the level of retained earnings adequate in relation to the FHLBank's risk profile, earnings stability, and future prospects? Is the amount of outstanding excess stock of the FHLBank greater than 1 percent of the institution's total assets? If so, since January 29, 2007, has the FHLBank declared or paid any excess stock dividend or otherwise issued any excess stock?

4) Balance Sheet and Liquidity

What are the level and trend of major balance sheet items? Does the balance sheet expose the FHLBank to significant operational, credit, and market risks? What are the level, trend, and stability of key business lines of the FHLBank, such as advances, investments, and mortgages? Does the FHLBank have sufficient liquidity relative to its risk exposures? Does the FHLBank have excess liquidity? Is the FHLBank likely to remain in compliance with liquidity requirements? Does the FHLBank's portfolio selection, funding mix, or hedging strategy expose the FHLBank to unusual risk?

5) Other

Are there any known external factors that may affect future performance such as mergers and acquisitions among members?

6) Assessment of Financial Condition and Performance

Summarize the results of the activity or function examined in a separate memorandum. The memorandum should analyze and discuss the financial condition and performance of the FHLBank (strong, satisfactory, supervisory concern, unacceptable), including the institution's earnings and profitability, operating efficiency, capital, retained earnings, excess stock, balance sheet composition, liquidity, and other relevant factors.

In presenting such analysis, the memorandum should take account of the following considerations: (a) the operating strategy and risk profile of the FHLBank; (b) the FHLBank's financial condition and performance relative to its historic condition and performance and that of other FHLBanks; and (c) the cooperative ownership structure of the FHLBanks and the interplay in a cooperative between product pricing and dividends. A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.

*Examination Work Program
Financial Condition and Performance
As of XXXXXX*

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

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