**INTERNAL CONTROLS QUESTIONNAIRE**

**IRR MANAGEMENT**

1. **Board of Directors (the board)** 
   1. Has the board established and adopted a written IRR policy in conformance with NCUA Letter to Credit Unions 12-CU-05, Interest Rate Risk Policy and Program Requirements (Letter 12-5)? Yes\_\_\_No\_\_\_\_
      1. Has the IRR policy been reviewed by the board within the most recent 12 months to determine if it remains responsive to changes in market conditions and credit union activities? Yes\_\_\_\_No\_\_\_\_ What was the date of the review \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_?
      2. Was the review noted in the minutes of the board? Yes\_\_\_\_No\_\_\_\_
   2. Does the nature and complexity of the IRR policy correspond to the complexity and level of the credit union’s size, complexity, and IRR exposure? Yes\_\_\_\_No\_\_\_\_
   3. Does the IRR policy clearly identify the board as having the responsibility of overall management and oversight of IRR exposure? Yes\_\_\_\_No\_\_\_
   4. Does the policy identify the reports and analysis of IRR and their timing to be available to the board? Yes\_\_\_\_No\_\_\_\_
   5. Does the board appear to have the training and experience to oversee the overall IRR management? Yes\_\_\_\_No\_\_\_\_
      1. What training or educational programs has the board attended in the last 3 years? Attach list.
      2. Has the board engaged a third party to assist them in their duties as to IRR? Yes\_\_\_\_No\_\_\_\_. If yes, identify the party and summarize their experience and expertise in an attached memorandum.
   6. Does the board appear engaged in the process of IRR management? Yes\_\_\_\_No\_\_\_\_
   7. Is a follow up procedure in place to insure that corrective action requested by the board is undertaken and the results are reported back to the board on a timely basis? Yes\_\_\_\_No\_\_\_\_
2. **IRR Measurement Systems**
   1. Which of the methods does the credit union utilize to estimate IRR:
      1. Gap analysis? Yes\_\_\_\_\_No\_\_\_\_\_. If yes attach a short memo summarizing the nature and adequacy of the analysis.
      2. Income simulation? Yes\_\_\_\_\_No\_\_\_\_\_. If yes attach a short memo summarizing the nature and adequacy of the analysis.
      3. Net economic value (NEV) analysis? Yes\_\_\_\_\_No\_\_\_\_\_. If yes attach a short memo summarizing the nature and adequacy of the analysis.
      4. Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_? Yes\_\_\_\_No\_\_\_\_ Attach a short memo summarizing the nature and adequacy of the analysis.
   2. Does the credit union utilize measurement systems that estimate the effects of IRR on both future earnings and economic value? Yes\_\_\_\_No\_\_\_\_
   3. Do the systems utilized estimate all of the material IRR associated with the credit union’s assets, liabilities, and off balance sheet (OBS) positions? Yes\_\_\_\_No\_\_\_\_
   4. Do the methods utilized use generally accepted financial concepts and risk measurement techniques? Yes\_\_\_\_No\_\_\_\_
   5. Are the credit union’s methods sufficiently rigorous to identify IRR that is material even if not located among the major balance sheet components? Yes\_\_\_\_No\_\_\_\_
   6. Are the credit union’s methods sufficiently rigorous to identify IRR that is material among all loans even those not secured by real estate? Yes\_\_\_\_No\_\_\_\_
   7. Do the methods employed by the credit union sufficiently aggregate or disaggregate major balance sheet components in order that martial IRR not be over- or under-estimated? Yes\_\_\_\_No\_\_\_\_
   8. Is the person(s) or third party performing the model analysis independent of the risk taking process? Yes\_\_\_\_No\_\_\_\_
3. **Assumptions** 
   1. Are key assumptions documented and disclosed to IRR decision makers? Yes\_\_\_\_No\_\_\_\_
   2. Are key assumptions reasonable and supportable? Yes\_\_\_\_No\_\_\_\_
   3. Are key assumptions clearly understood by those utilizing the IRR analysis? Yes\_\_\_\_No\_\_\_\_
   4. Are key assumptions with respect to behavioral characteristics (embedded options) of counterparties (savers and borrowers) based on reasonable expectations or previous experience at the credit union or local level? Yes\_\_\_\_No\_\_\_\_
   5. Are key assumptions reviewed periodically for their continued suitability? Yes\_\_\_\_No\_\_\_\_
   6. Are changes in key assumptions:
      1. Approved in writing? Yes\_\_\_\_No\_\_\_\_
      2. Documented in an ongoing maintenance log? Yes\_\_\_\_No\_\_\_\_
      3. Brought to the attention of key IRR decision-makers on a timely basis? Yes\_\_\_\_No\_\_\_\_
4. **Risk limits** 
   1. Has the credit union established risk limits with respect to acceptable levels of estimated IRR? Yes\_\_\_\_No\_\_\_\_
      1. Are the risk limits clearly articulated? Yes\_\_\_\_No\_\_\_\_
      2. Are the risk limits approved by the board? Yes\_\_\_\_No\_\_\_\_
      3. Are the risk limits reviewed periodically, but at least annually? Yes\_\_\_\_No\_\_\_\_
      4. Are the risk limits suitable with respect to asset size, complexity, and net worth adequacy? Yes\_\_\_\_No\_\_\_\_
      5. Are the risk limits suitable when considering the credit union’s ability to measure and manage IRR? Yes\_\_\_\_No\_\_\_\_
   2. Are the risk limits consistent with the credit union’s overall approach to estimating IRR? Yes\_\_\_\_No\_\_\_\_
   3. Do the risk limits address the impact of IRR on NEV? Yes\_\_\_\_No\_\_\_\_
   4. Do the risk limits address both short-term and long-term IRR exposure? Yes\_\_\_\_No\_\_\_\_
   5. Are material deviations from IRR risk limits reported immediately to the board? Yes\_\_\_\_No\_\_\_\_
   6. Is there a clear policy as to how the board will be informed and what action should be taken by management when material deviations occur? Yes\_\_\_\_No\_\_\_\_
   7. Is there a clear policy as to whether limits are absolute in the sense that they should never be exceeded or whether, under specific circumstances (which should be clearly described), breaches of limits can be tolerated for a short period of time? Yes\_\_\_\_No\_\_\_\_
5. **Future Events With Material Impact**
   1. Are future events, which may have a material impact on IRR exposure, evaluated as a part of the estimation process? Yes\_\_\_\_No\_\_\_\_
      * + 1. New business segments? Yes\_\_\_\_No\_\_\_\_
          2. Changes to FOM? Yes\_\_\_\_No\_\_\_\_
          3. Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_? Yes\_\_\_\_No\_\_\_\_
6. **Input Controls** 
   1. Does the credit union maintain documentation as to the information to be provided to the model operator? Yes\_\_\_\_No\_\_\_\_
   2. Are procedures in place to determine that correct data are sent to and received by the model operator on a timely basis for each testing cycle? Yes\_\_\_\_No\_\_\_\_
   3. Is the credit union employee assigned the task of providing data to the model operator separate from the employee who is receiving and utilizing the output of the model? Yes\_\_\_\_No\_\_\_\_
   4. Is the credit union employee assigned the task of providing data to the model operator separate from the officer who is responsible for IRR decisions and management? Yes\_\_\_\_No\_\_\_\_
7. **Output Controls** 
   1. Are procedures in place to insure that output from the model operator is distributed to assigned parties in accordance with the IRR policy? Yes\_\_\_\_No\_\_\_\_
   2. Are output data compared to known and independent sources when possible? Yes\_\_\_\_No\_\_\_\_
8. **Management Controls(CEO and/or CFO)**
   1. Is the IRR expertise of the credit union’s management consistent with the size and level of complexity posed by the credit union’s balance sheet and operations? Yes\_\_\_\_No\_\_\_\_
   2. Does management understand the output from IRR estimate reports and how to use them? Yes\_\_\_\_No\_\_\_\_
   3. Are the IRR reports, estimates, and supporting information received by management sufficient to manage IRR exposure? Yes\_\_\_\_No\_\_\_\_
   4. Are clear lines of authority established for managing IRR? Yes\_\_\_\_No\_\_\_\_
   5. Are the results of the IRR estimation process incorporated into the decision making process by management? Yes\_\_\_\_No\_\_\_\_
   6. Are contingency plans prepared or reviewed when IRR exposure is estimated as high or approaches risk limits? Yes\_\_\_\_No\_\_\_\_
9. **Summary** 
   1. Does the overall internal control of the IRR estimation and management process appear reasonable considering the credit union’s size, complexity and available resources? Yes\_\_\_\_No\_\_\_\_