



## WHAT IS A LIQUIDITY RISK REVIEW?

HBP Analytics, LLC's (HBP) process is to review and assess the Bank's Funding and Liquidity Risk Management Process ("LMPs"). The purpose of this review is to ensure the bank's LMPs are adequate to be able to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the institution.

To this end, the Bank's LMPs will be reviewed and assessed based primarily on the guidelines established in the Interagency Guidance on Funding and Liquidity Risk ("Interagency Guidance") issued in March 2010. (This guidance summarizes the principles of sound liquidity risk management that the agencies have issued in the past and, where appropriate, harmonizes these principles with the international statement recently issued by the Basel Committee on Banking Supervision titled "Principles for Sound Liquidity Risk Management and Supervision. ")

In compliance with the Interagency Guidance, this review will provide an independent review of the adequacy of the bank's LMPs to appropriately identify, measure, monitor, and control its funding and liquidity risk. This review will focus on the primary tools for measuring and managing liquidity risk, which include cash flow projections, diversified funding sources, stress testing, liquid asset cushions, and a formal well-developed contingency funding plan (CFP). The adequacy of the bank's liquidity management processes will be assessed vis-à-vis the institution's complexity, risk profile, and scope of operations.

## REVIEW PROCESS & METHODOLOGY

In compliance with the Interagency Guidance, this review will assess and evaluate the following in relation to the bank's size, complexity and scope of operations:

- 1) The oversight by the board of directors and active involvement by management in the bank's control of liquidity risk.
- 2) Strategies, policies, procedures, and limits used by the bank to manage and mitigate liquidity risk.
- 3) The adequacy of the bank's liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds).
- 4) The bank's active management of intraday liquidity and collateral positions.



- 5) The bank's use of a diverse mix of existing and potential future funding sources.
- 6) The bank's maintenance of adequate levels of highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations.
- 7) The bank's contingency funding plans (CFPs) that address potential adverse liquidity events and emergency cashflow requirements.
- 8) The bank's internal controls and internal audit processes to determine the adequacy of the institution's liquidity risk management processes.

## **PRESENTATION OF FINDINGS AND RECOMMENDATIONS**

Findings from this review will be summarized in a written report.