**Annex 10**

**Priority Areas of the ILAAP Review**

When assessing compliance with the liquidity requirements, the supervisory authority identified shortcomings in the following areas, affecting several institutions. The institutions are expected to review the full compliance of their practice with the laws also considering these areas, and they should assess whether compliance with the statutory requirements is sufficient to address their own risks or they need to implement stricter requirements.

# Notice deposits

When calculating the LCR outflows those liabilities must be also taken into consideration what “entail an expectation by the provider of the funding that the credit institution would repay the liability during the next 30 calendar days.”

The MNB expects the institution not to allocate its liabilities automatically to LCR categories based on the maturity, but rather to review whether those have any option to call. (Special deposit schemes, closed-end mutual funds the liquidity of which is ensured by repurchase by the bank, mandatory early withdrawal nature of deposits placed by real estate funds, as defined by the law, mandatory repurchase of household securities sold as a substitute for deposits, etc.)

# Operational deposits

During the LCR calculation “only the part of the deposit which is necessary to make use of the service of which the deposit is a by-product shall be treated as an operational deposit. The excess shall be treated as non-operational.”

The MNB expects that institutions using the operational deposit category should have a methodology with regard to the method of defining the balance necessary for the maintenance of the operational relationship. On the other hand, it should perform statistical estimation to establish whether the average outflow rate of the deposits divided into operational and non-operational part adequately reflects the risk of the total deposit portfolio.

# Correspondence to the balance sheet

The MNB examines whether the deposits stated in the balance sheet appear in the LCR as outflow. Irrespective of the client sector, the MNB examines for all large discrepancies the lawfulness of the exemption based on the master agreements and maturities.

# Review of liquid assets

According to the LCR regulation, the determination of liquid assets is a multi-step procedure and the application of the detailed rules is not straightforward in the case of all instruments. However, the report uses consolidated categories both in terms of instruments and calculation logic; the vast majority of liquid assets appear in a few cells. Thus the stock of liquid assets reported in LCR cannot be directly compared with the other regular reporting. Due to this, the MNB may prescribe the breakdown of liquid assets under LCR, which reflects the individual instruments, the valuation and encumbrance steps and other amendments. The template is included in the excel file entitled “Annex 12: Request for data to check for unstable funds”.

# Daily compliance with the ratios

The liquidity and funding ratios prescribed by the MNB must be complied with on a continuous basis rather than only on the reference dates of the related reporting. If based on the regular daily reporting the MNB does not find a reassuring evidence of continuous compliance, it will examine this in more detail during the ILAAP reviews.