

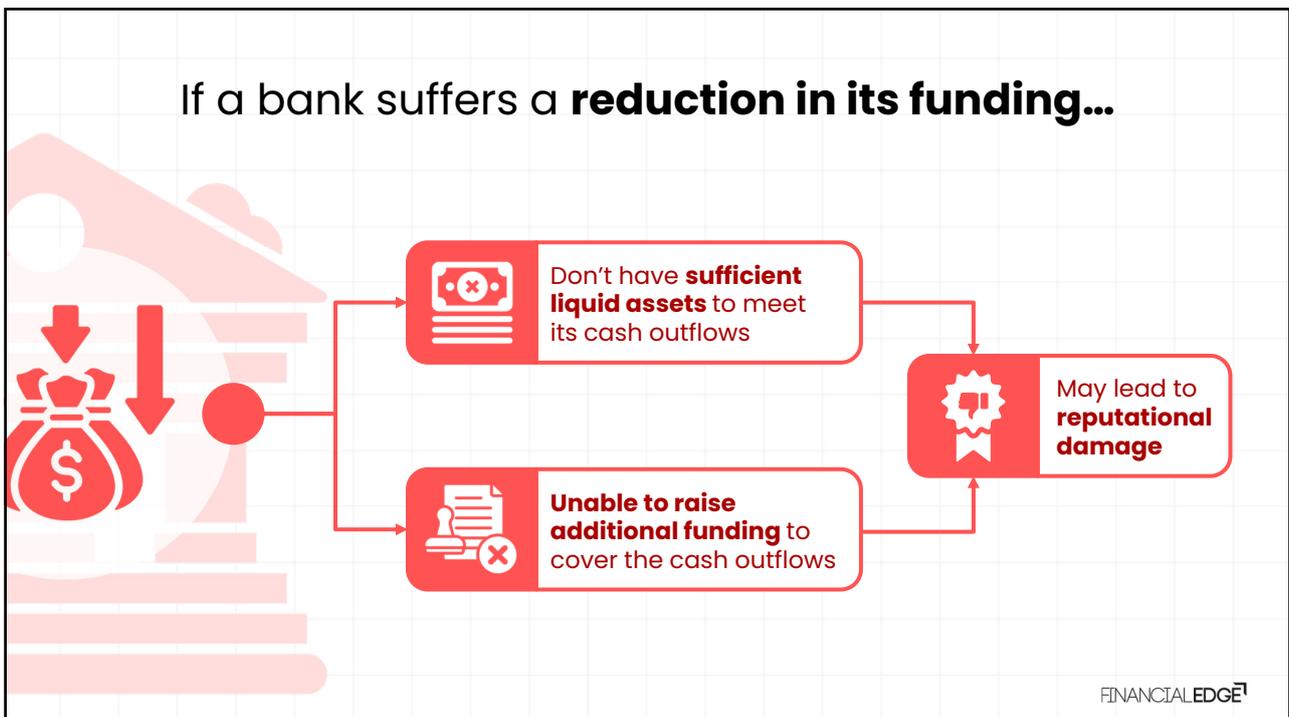


# Liquidity Risk



# Introduction to Liquidity Risk







# Capital vs. Liquidity – Commercial Bank



## Assets

Liquid Assets

10

Loans

90

## Liquid Assets



**Assets**

**Liquid Assets**

**10**

Loans

90



Converted to cash  
**quickly and easily**



Cash is the **ultimate**  
type of **liquid asset**

---

**OTHER EXAMPLES**



**Short-term Government Bonds**



**Certificates of Deposits (CDs)**

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## Loans



**Assets**

**Liquid Assets**

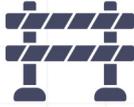
**10**

**Loans**

**90**



Set **repayment date** when money  
needs to be returned



Difficult to **trade**  
and turn a loan  
into **cash**

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**RELATIVE ILLIQUIDITY OF LOANS**



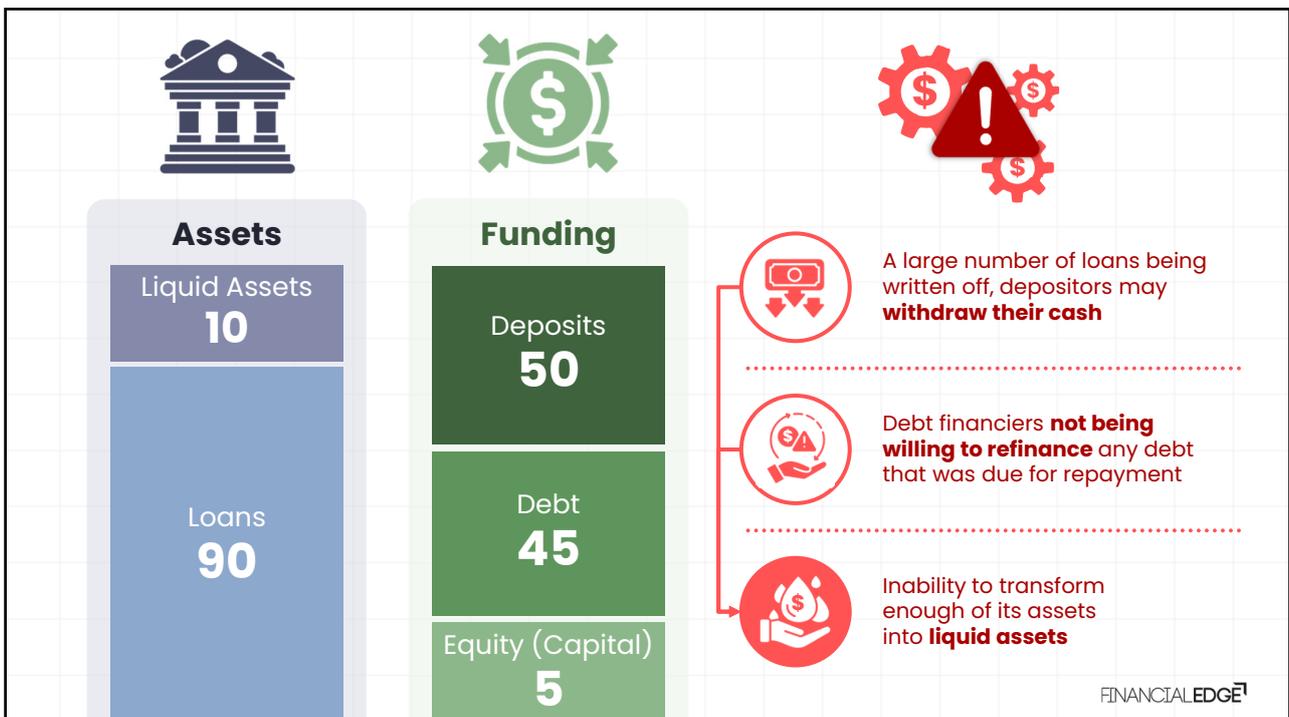
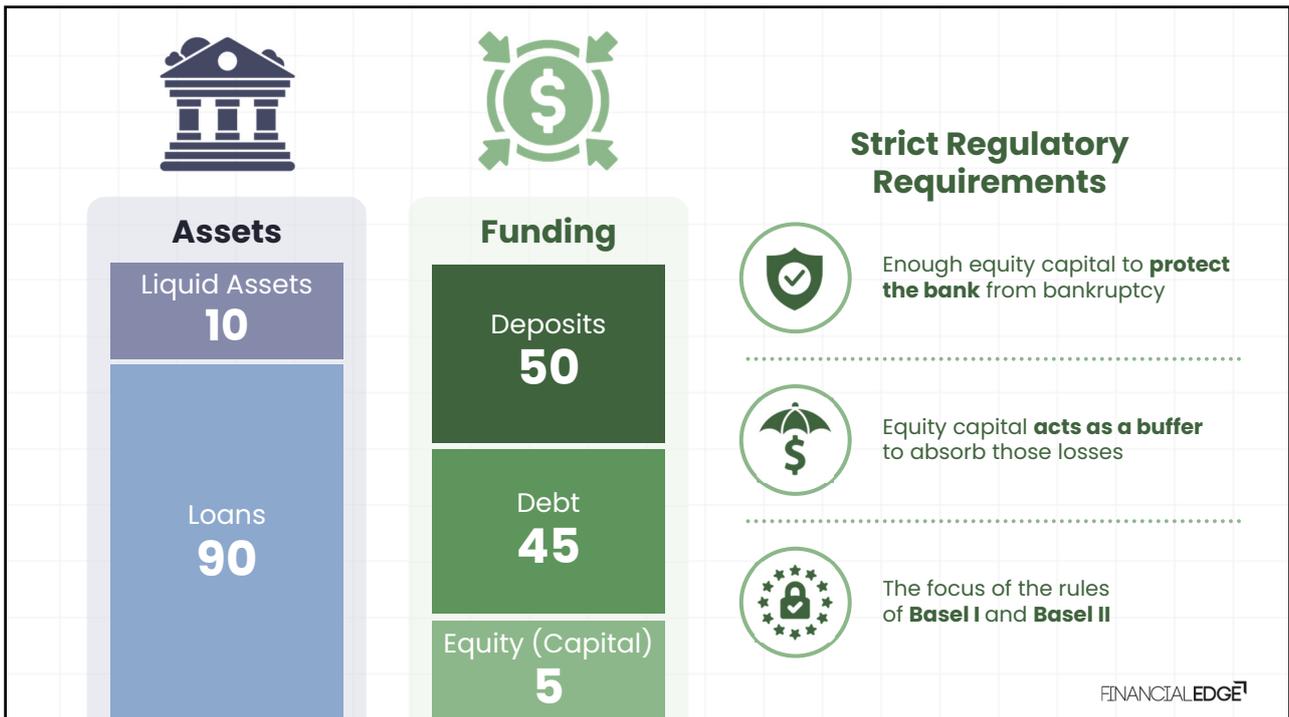
**LOANS**

A bank will earn a  
higher return from  
loans than from the  
liquidity portfolio



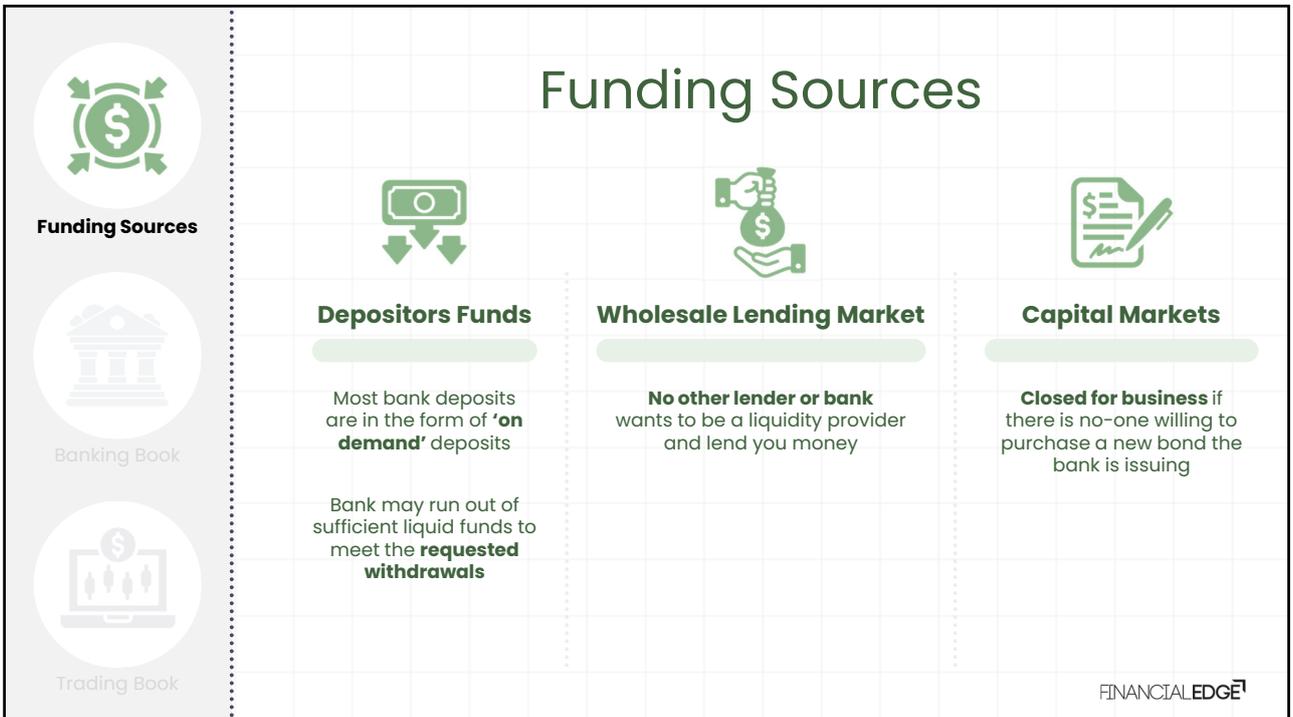
**LIQUID ASSETS**

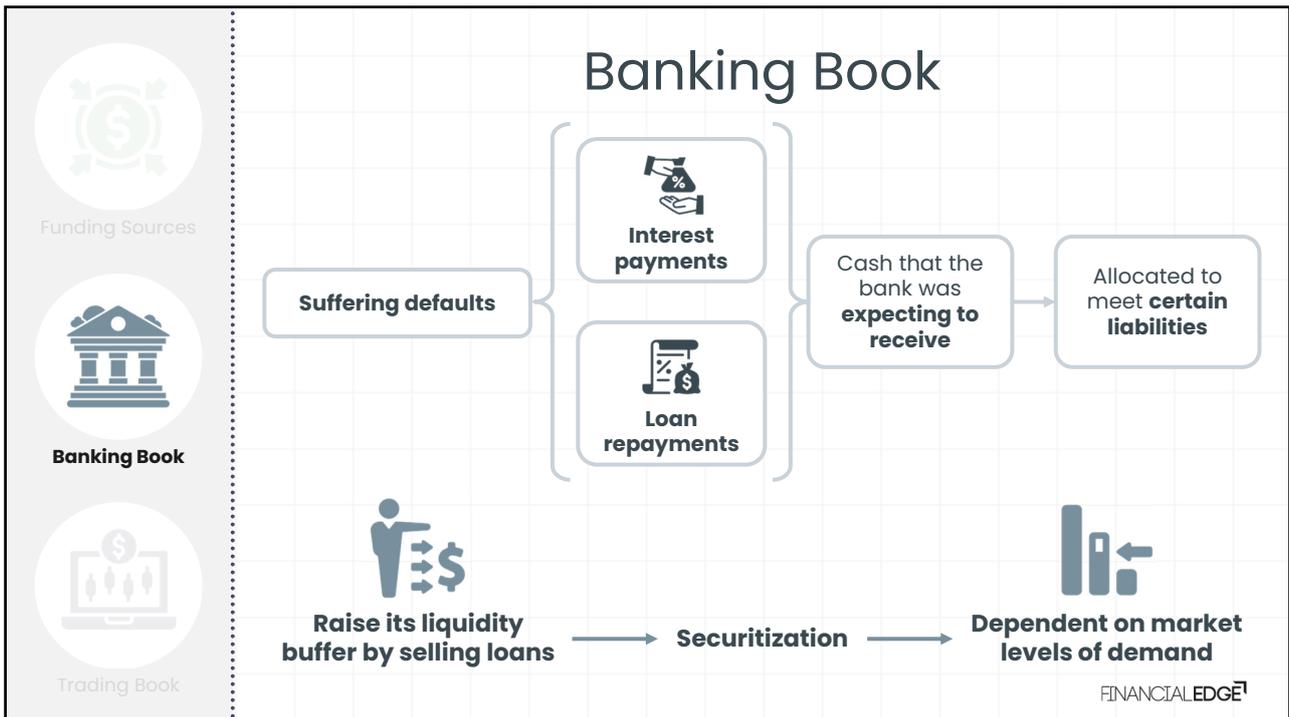
FINANCIALEDGE<sup>1</sup>

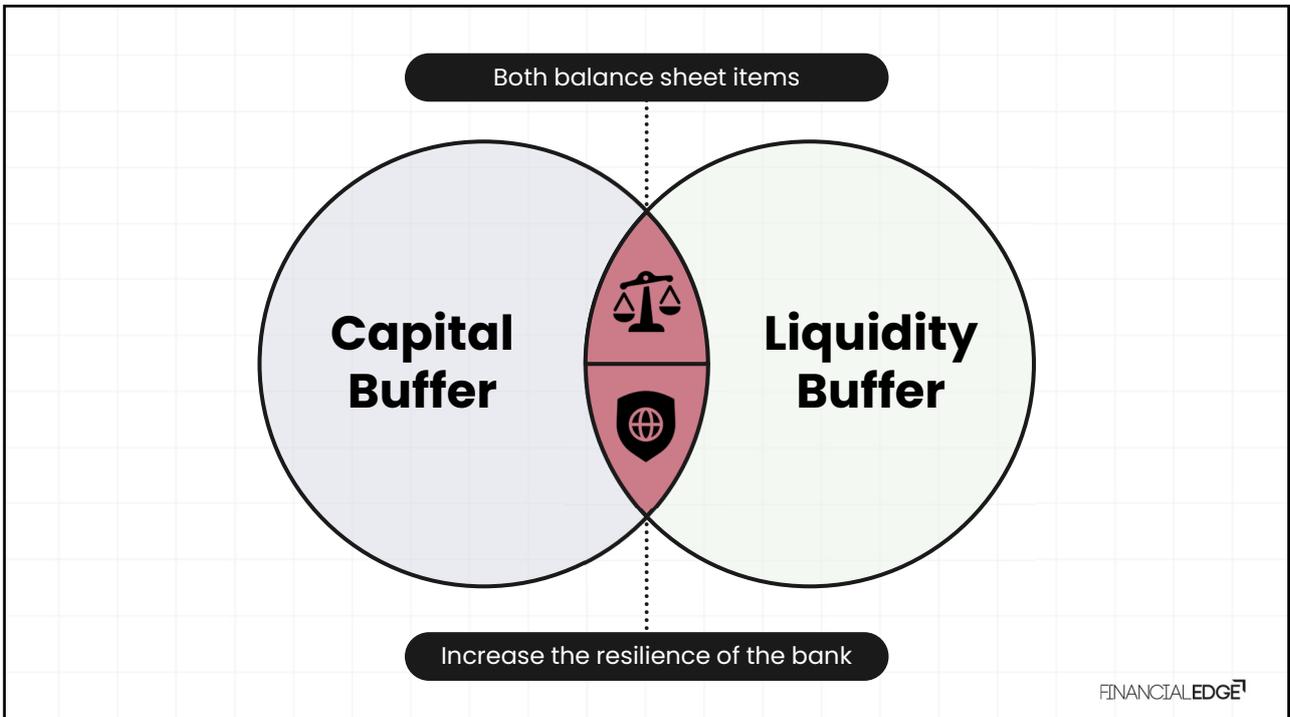


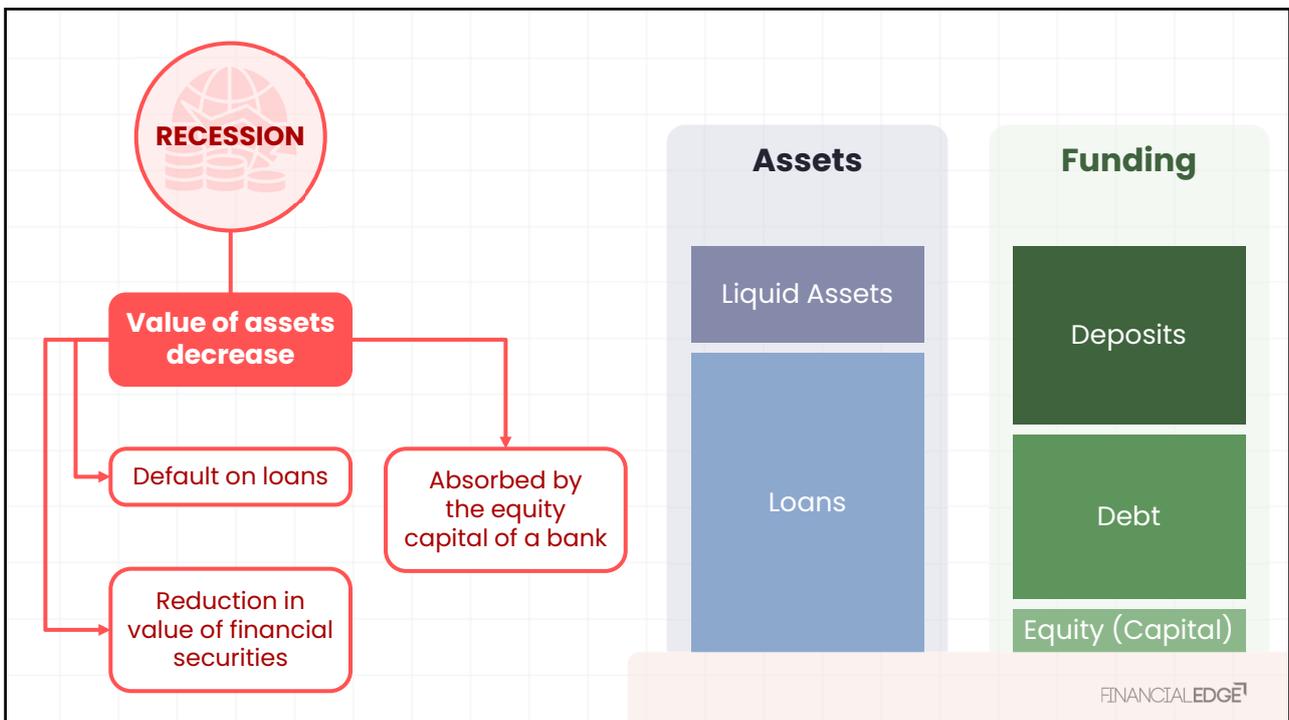
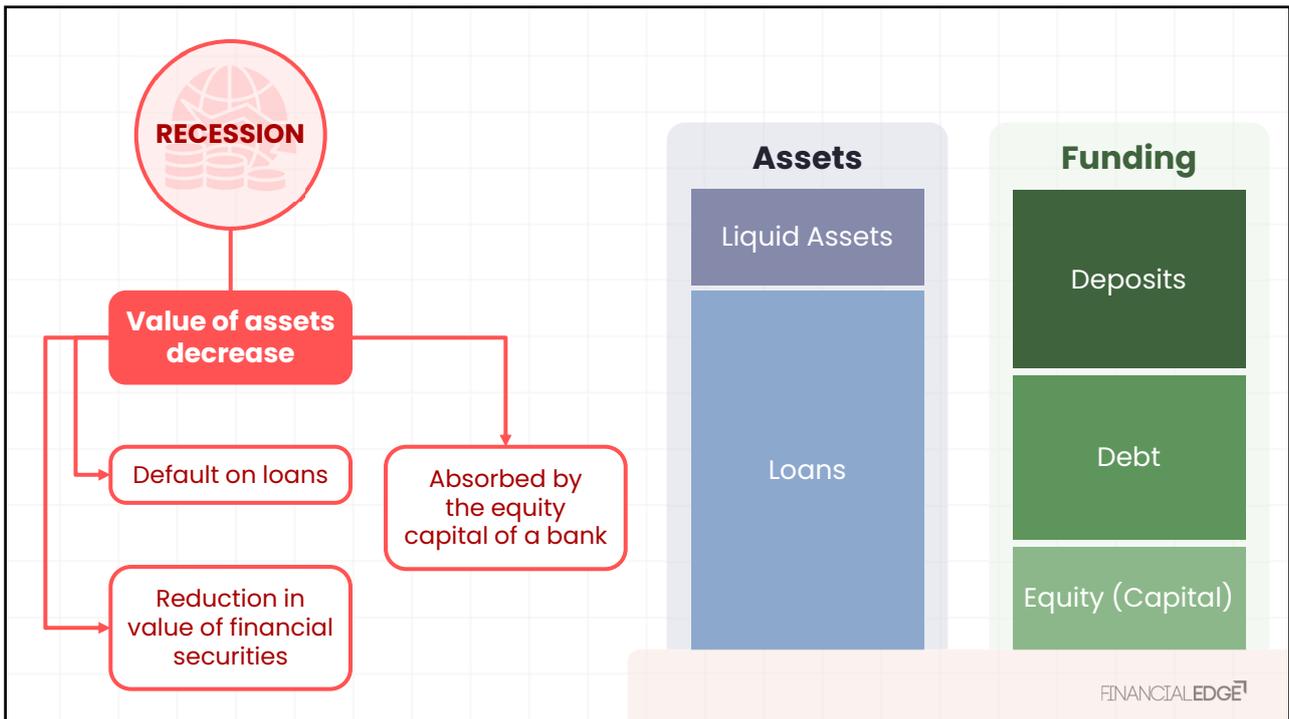


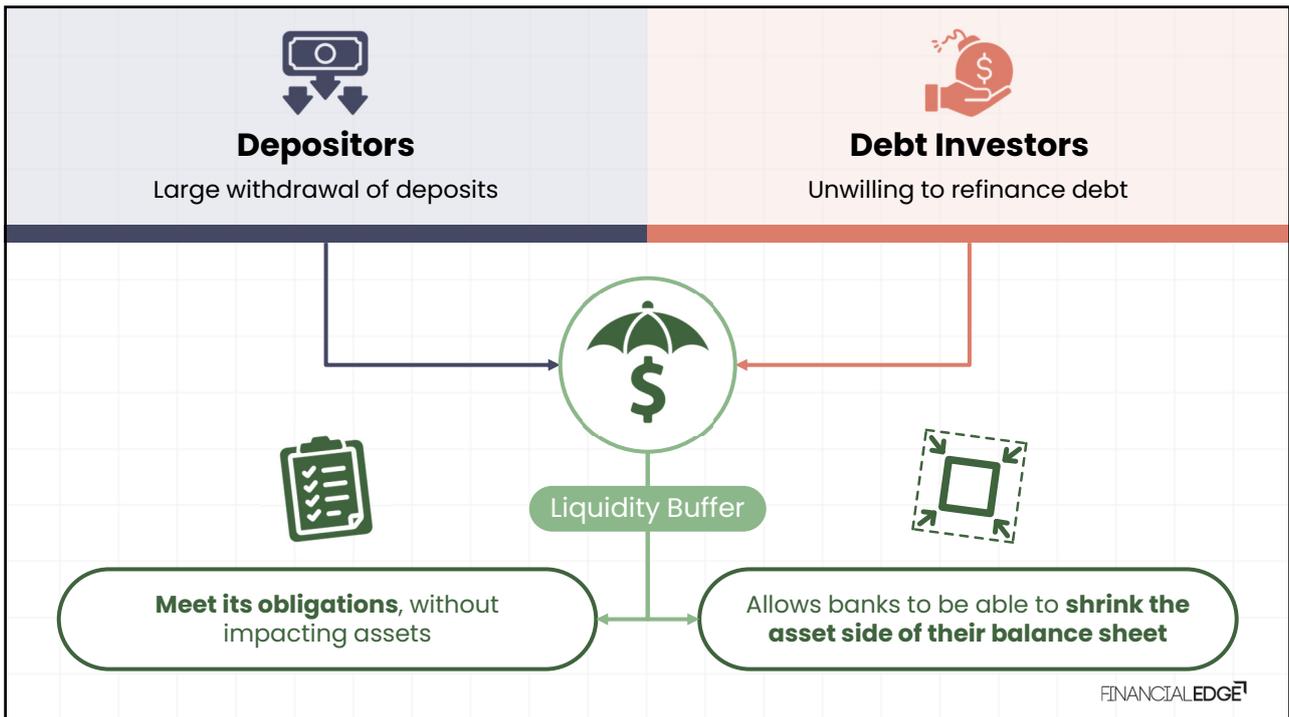
# Sources of Liquidity Risk

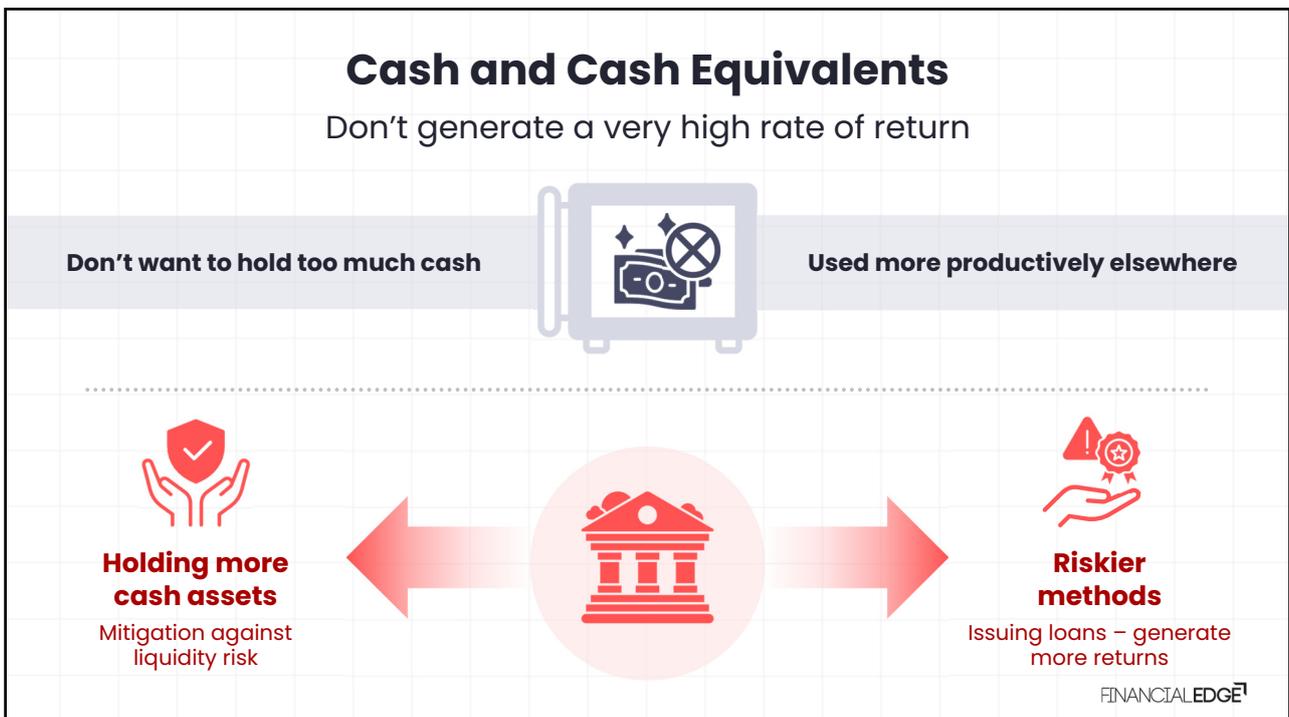
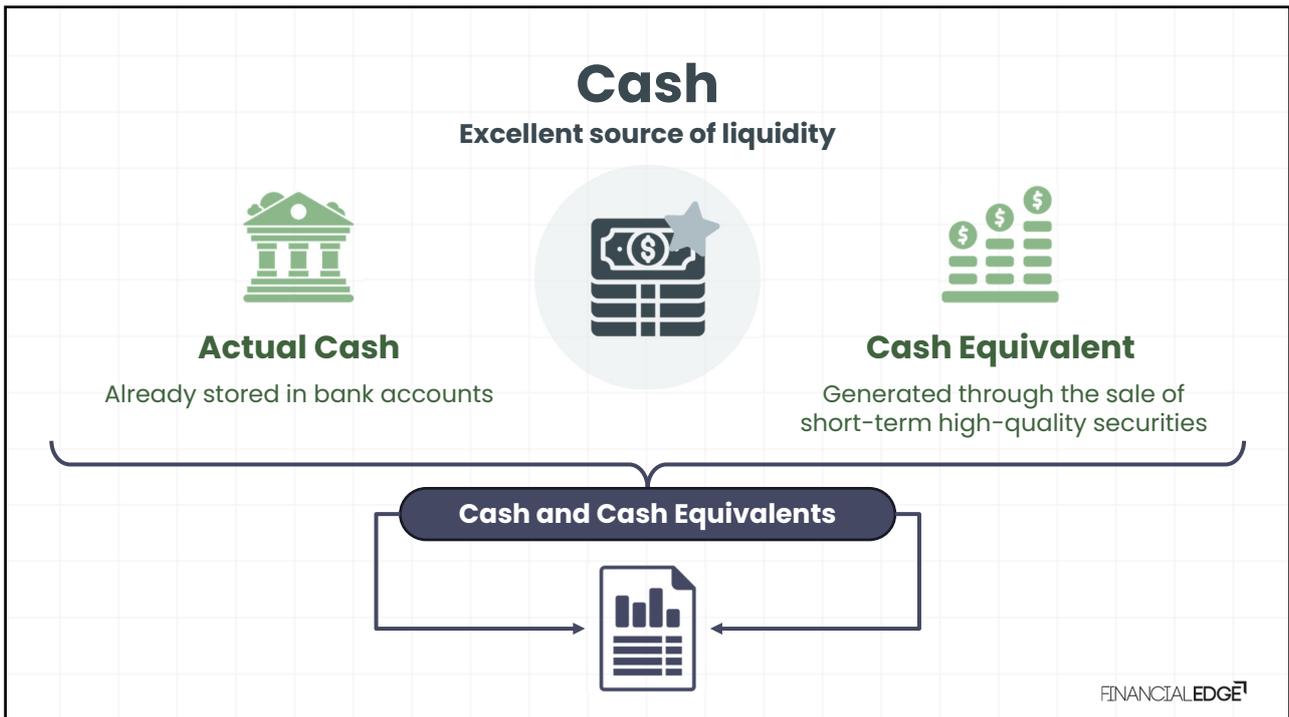


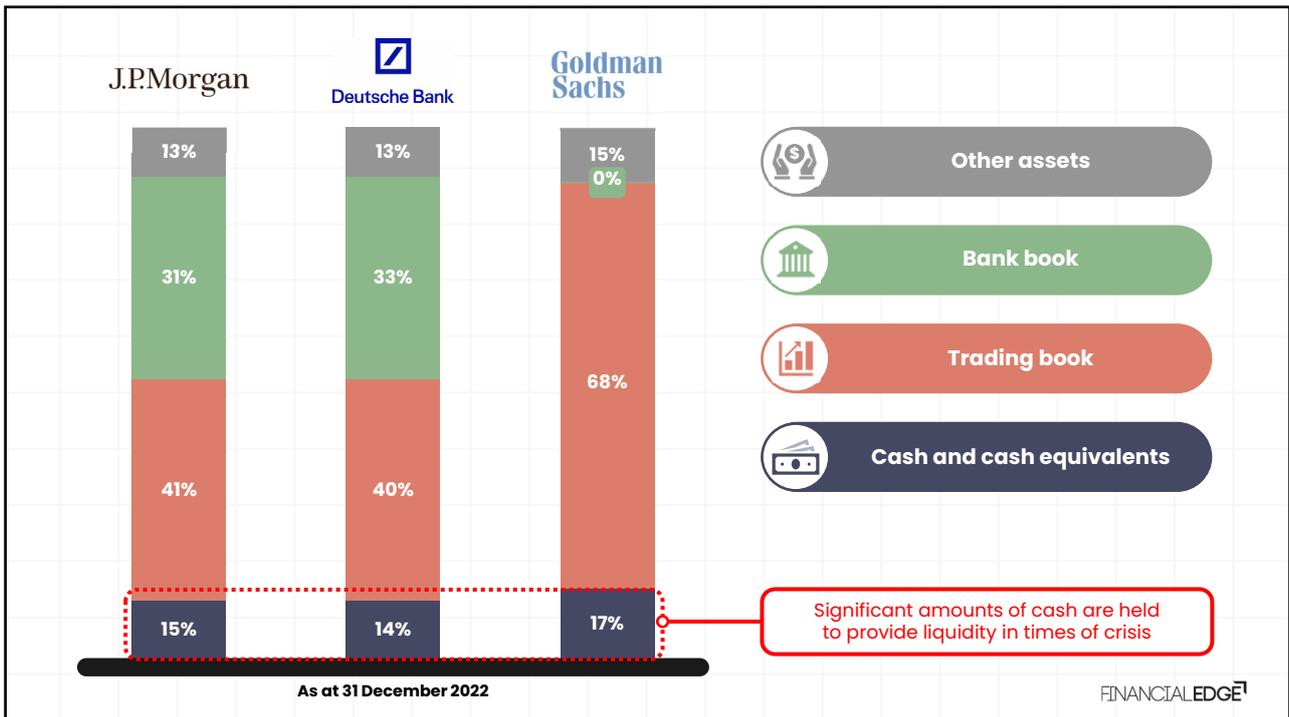


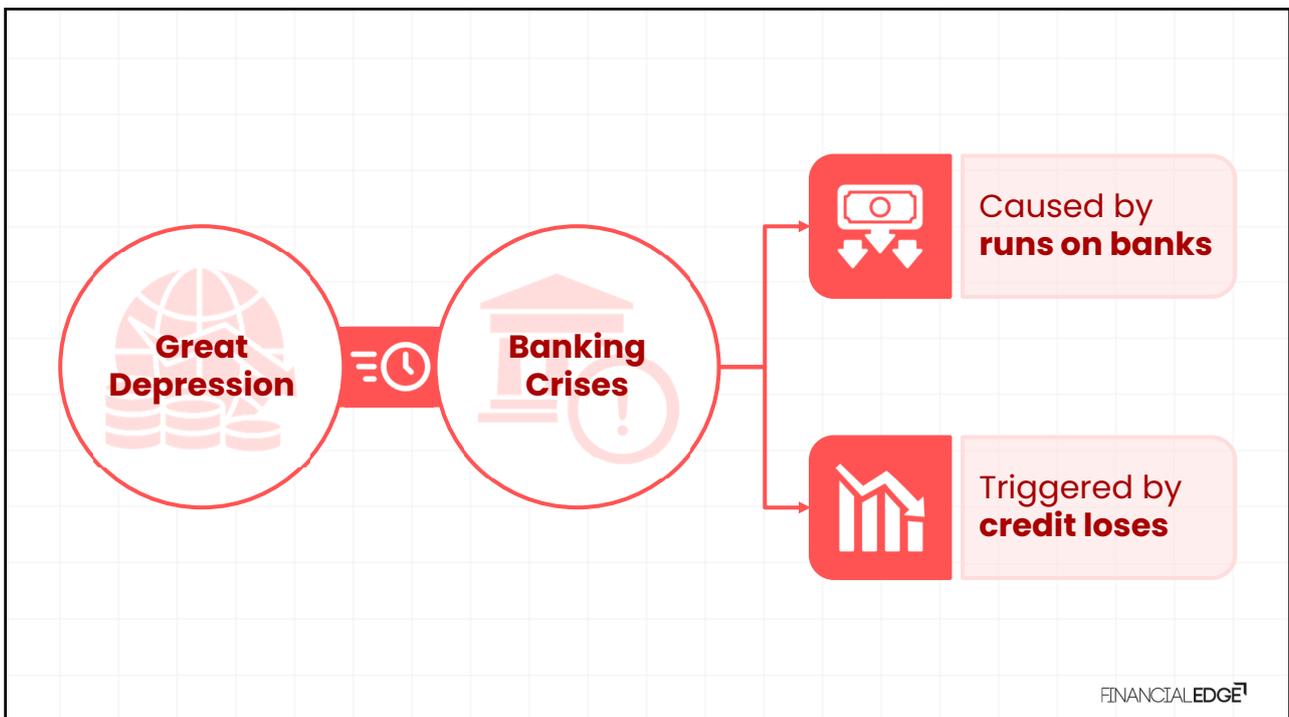
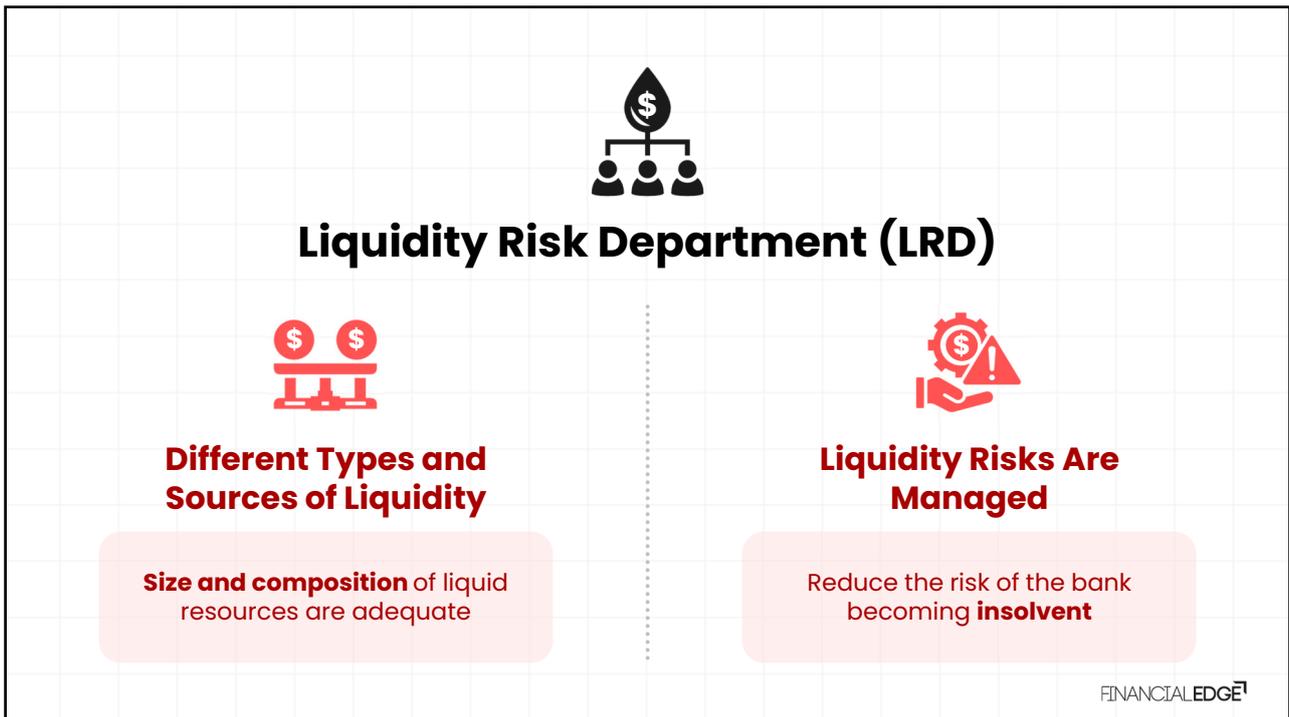


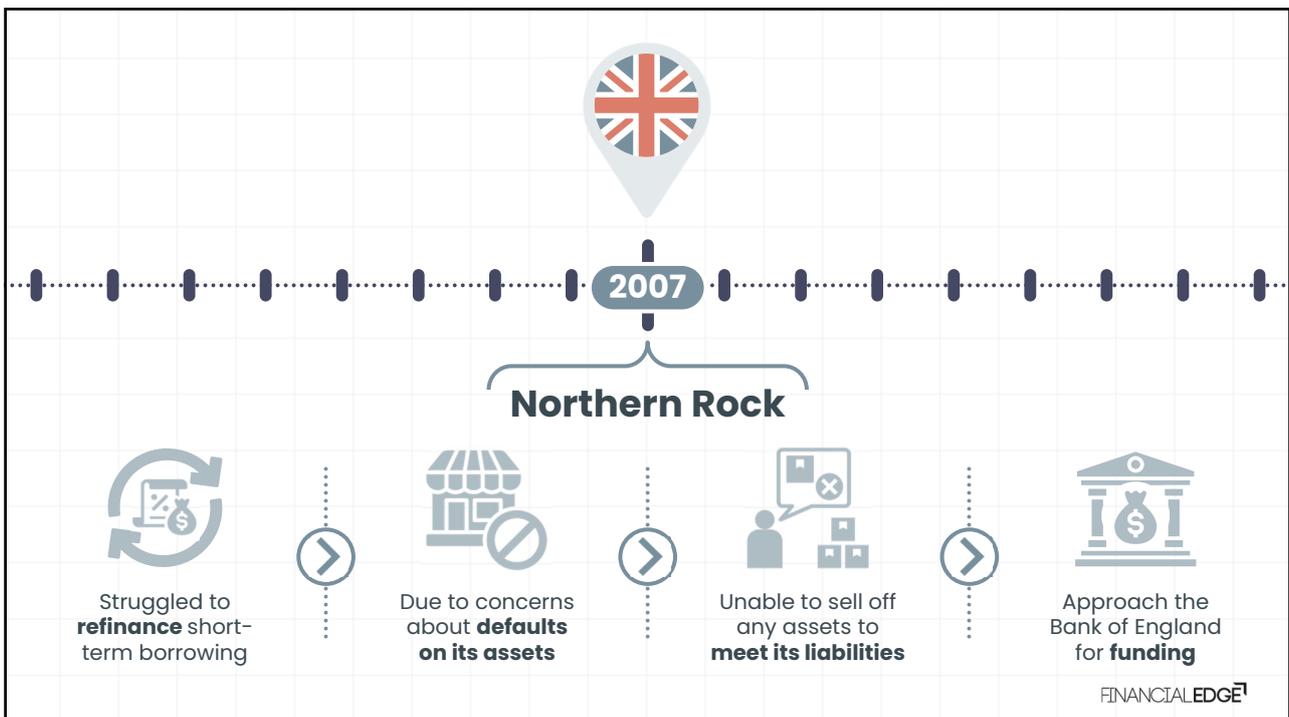
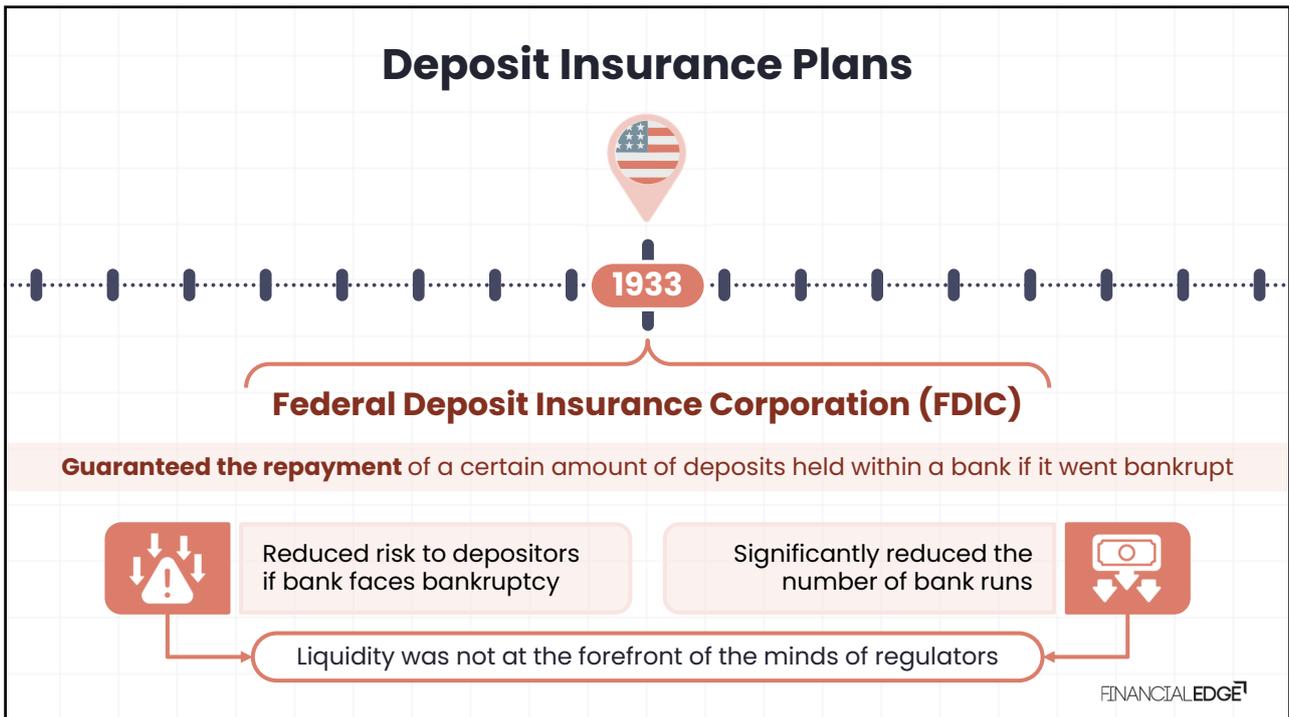


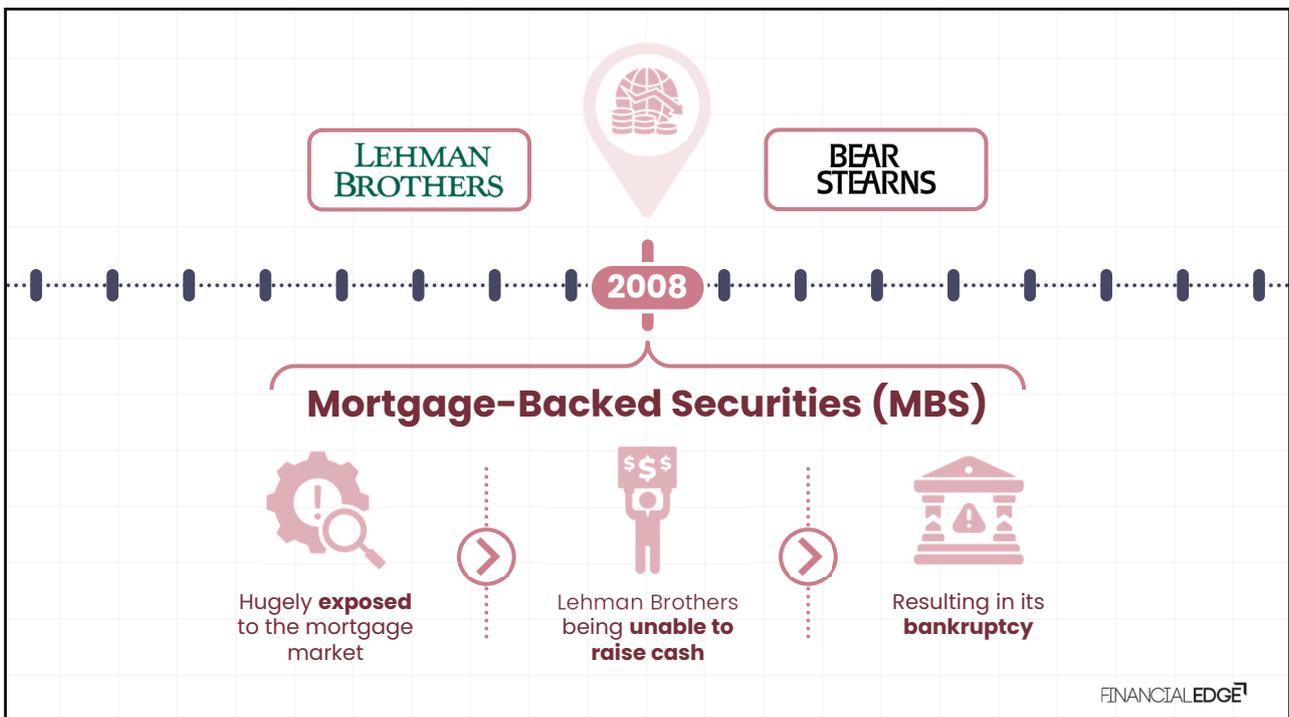
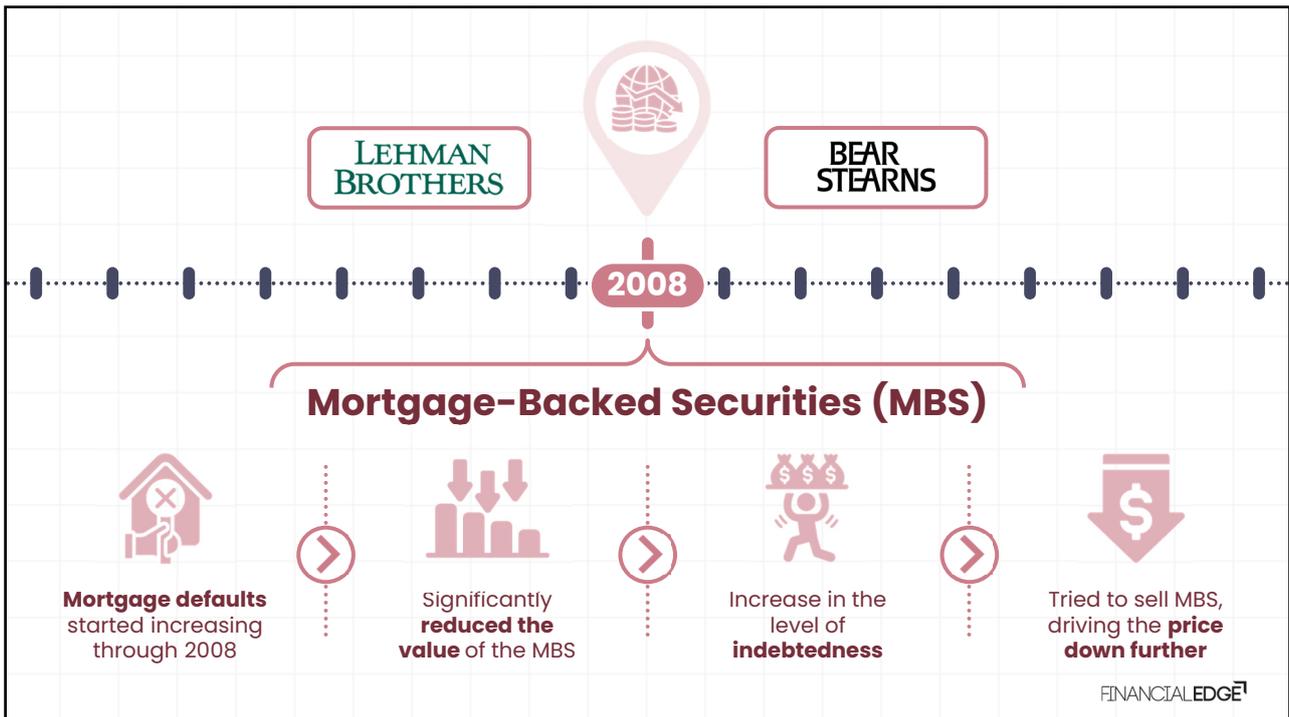


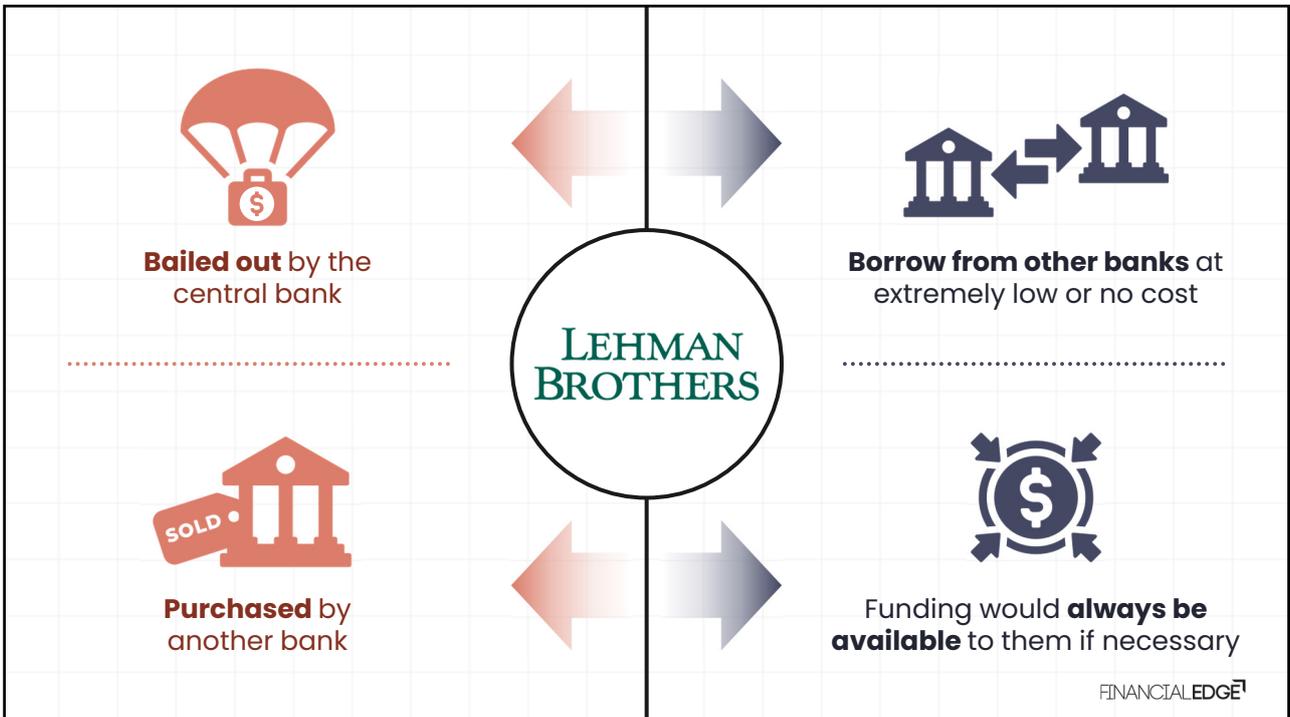


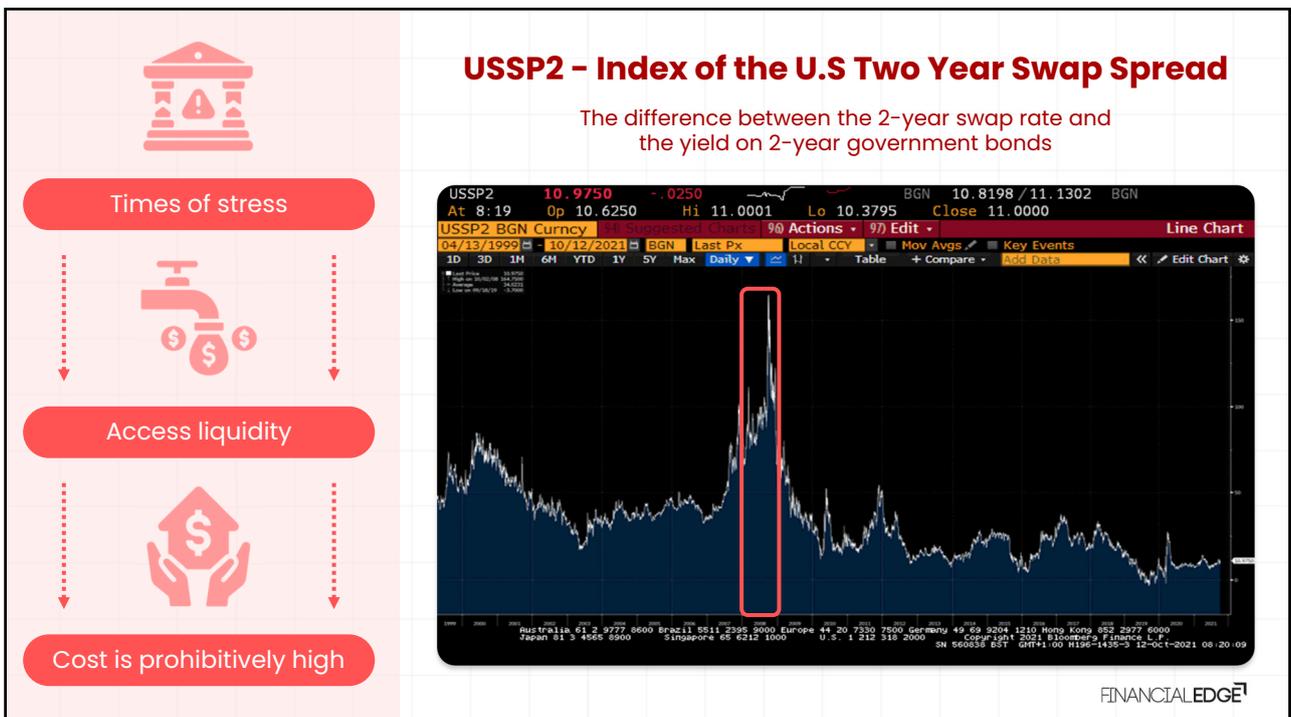
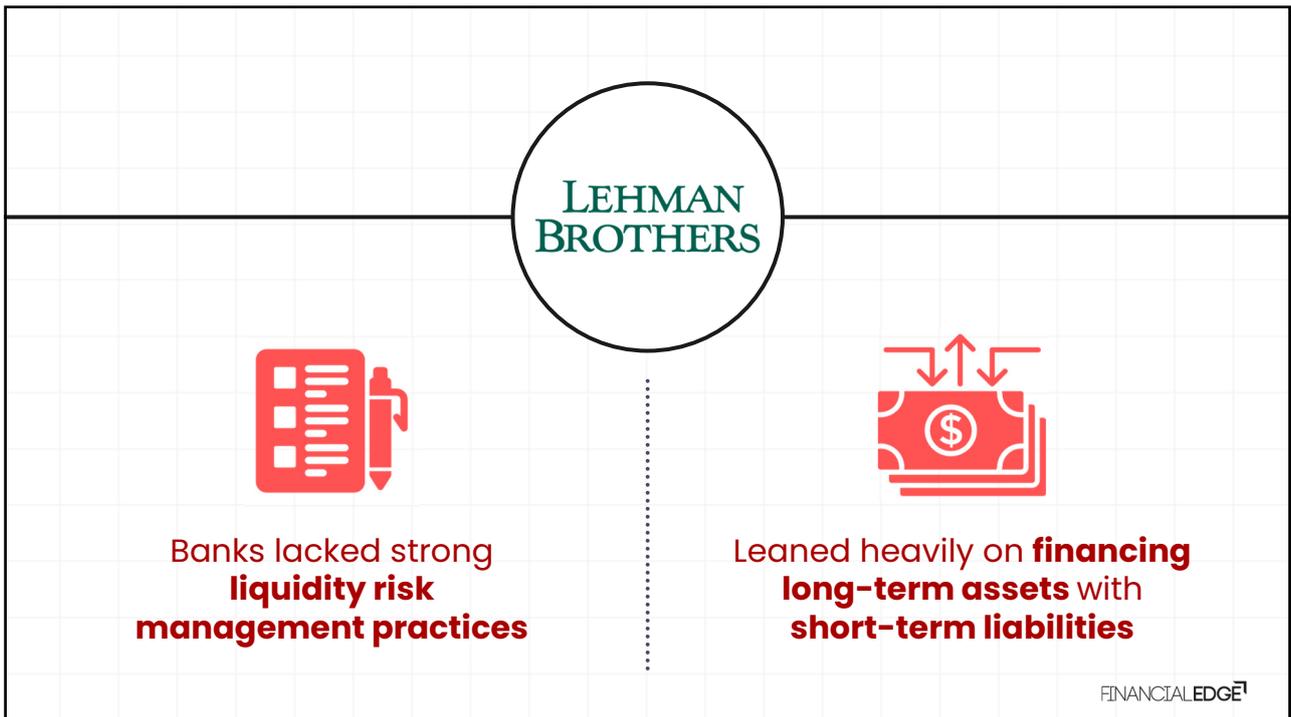


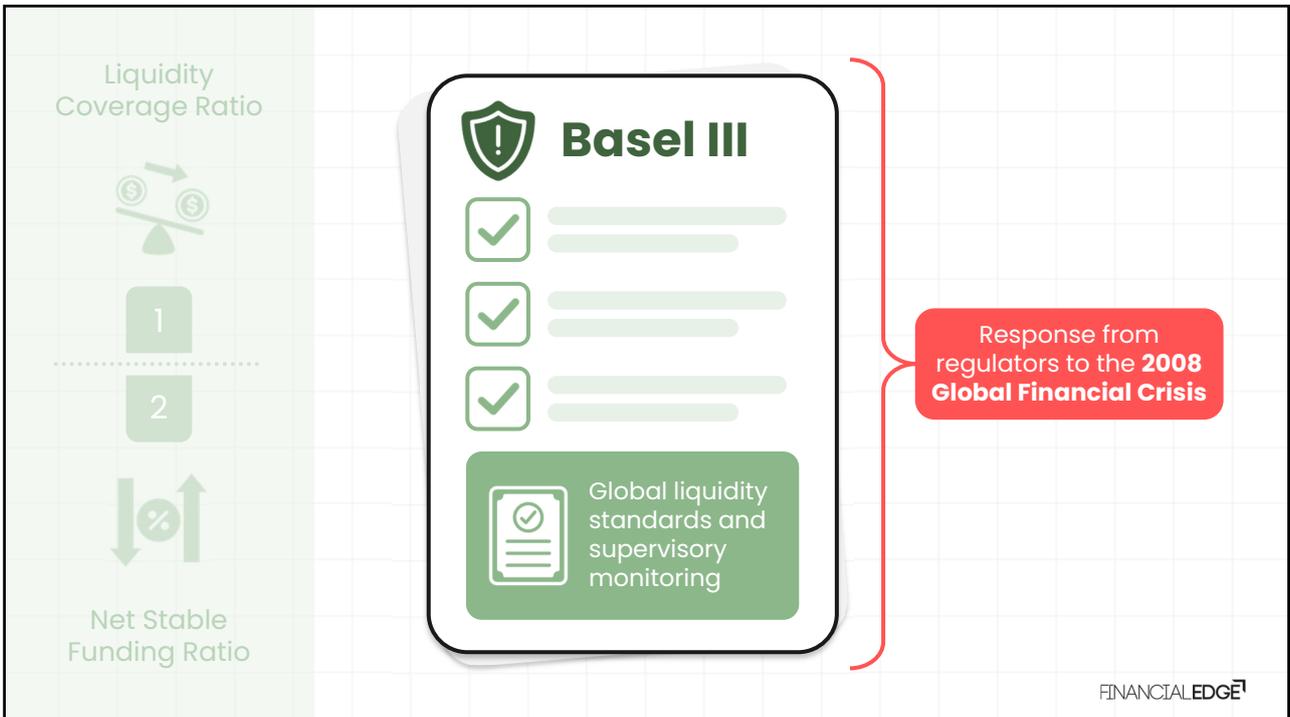












**Liquidity Coverage Ratio**



1

---

2



Net Stable Funding Ratio



**Sufficient** high-quality **liquid assets** to survive a 30-day stress scenario

---



Forecast their **contractual cash inflows and outflows** over the next 30 days

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Cash or assets which can be **quickly converted into cash** with no significant loss

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Liquidity Coverage Ratio



1

---

2



Net Stable Funding Ratio



A bank has Available Stable Funding (ASF) **greater** than its Required Stable Funding (RSF)

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Available Stable Funding (ASF) includes its **shareholder's equity** and any **debt financing** not due for repayment in the next 12 months

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Required Stable Funding (RSF) is any asset with **more than 1 year to maturity**

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## Basel III

Best practice **liquidity management** from the liquidity lessons learnt from the 2008 GFC (Global Financial Crisis)

### Principles for Sound Liquidity Management and Supervision

- ✓
- ✓
- ✓
- ✓

Have a full understanding of their **liquidity risk tolerance**

Identify and measure their **liquidity risk exposure**

Design appropriate **stress tests**

Manage **intraday liquidity risk** appropriately



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