

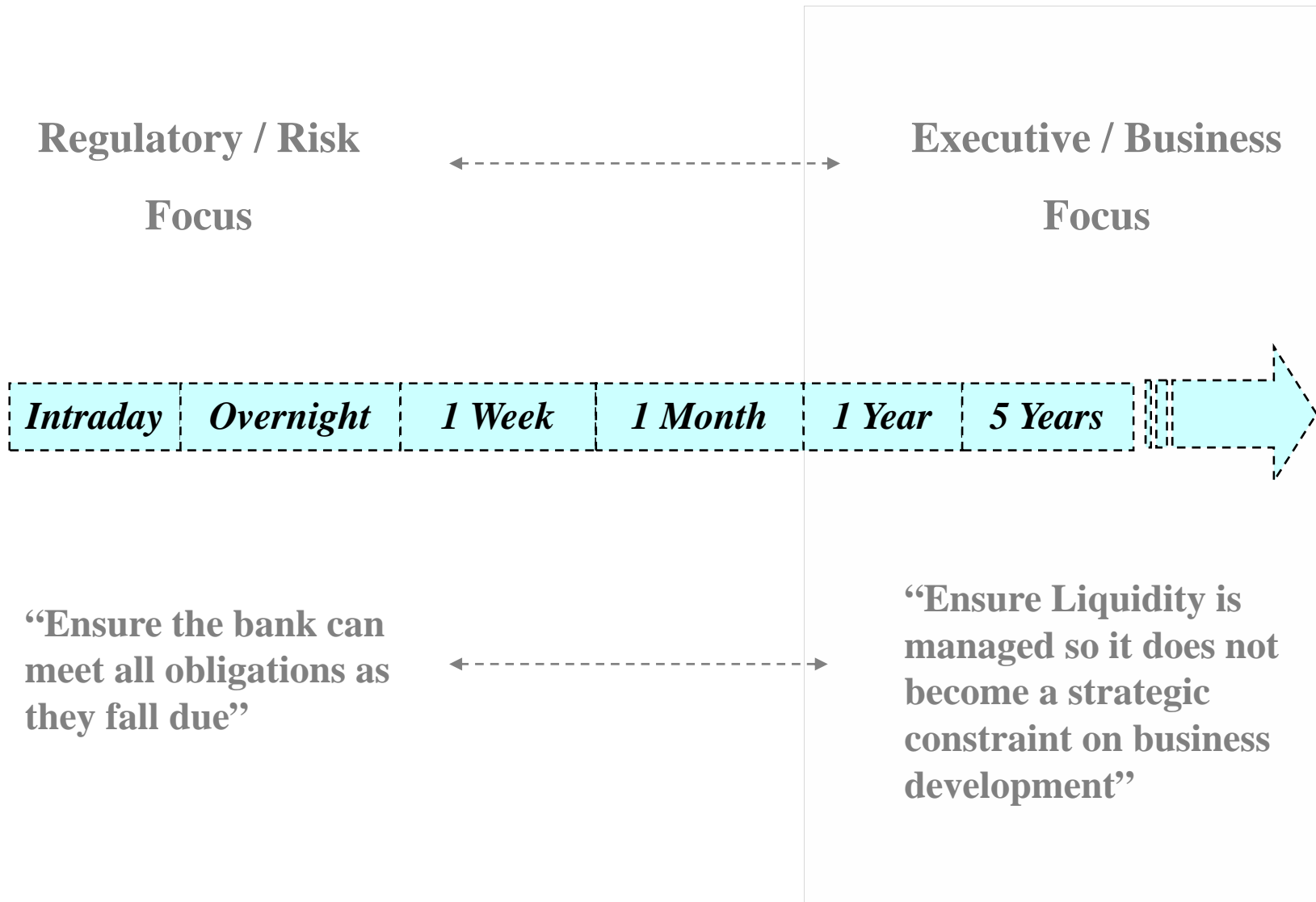
Liquidity Management : ALMA Survey

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Friday June 15th 2007



Survey based on major UK Banks



- **Herstatt Risk transforms into systems risk**
- **CLS (Continuous Linked Settlement) FX and RTGS (Real Time Gross Settlement)**
- **Intraday is Real time**
- **Failure of payments now is real time and public issue**
- **Reputational Risk is more prominent in a real time world**
- **The Financial System is highly interdependent**

- Highlights of Key Results
- Survey drawn from Commercial UK banks-RBS; HBOS; Lloyds TSB etc
- Building societies reviewed separately-not featured in this presentation

Management of Liquidity risk

Does your bank rely more on regulatory or internal liquidity measures

- Internal as equal or more important than regulatory 80%

Major tools for measuring short term liquidity risk

- Multi Currency cumulative mismatch 100%
- Stress Tests with formal limits 80%
- Stock of liquid assets 80%
- Limits on Undrawn commitments 50%

To what extent do multiple regulatory regimes cause issues

- Material Issues 20%
- Some Issues 60%
- None 20%

Measuring Liquidity Risk

Are funding strategies reviewed in conjunction with capital requirements

- Yes 50%
- No 50%

What period do you measure liquidity for daily reporting purposes

- Up to 8 days 100%
- Up to one month 80 %
- More then 3 months 30%

Do you include bonds pledged to support payment systems as part of liquid assets (Double Duty)

- Yes 50%
- No 50 %

Measuring Liquidity Risk

How frequently do you update the liquidity data from Retail Wholesale and Corporate in the liquidity calculation

- Daily 80%
- Monthly 20%

Do you review or set concentration limits on funding by currency ; geography; customer; instrument

- Review 60/80%
- Limits 20/40%

Measuring liquidity risk

Do you set limits on structural position of ENTIRE balance sheet

- Yes 60%
- No 40%

Over what time frame do you project wholesale funding capacity

- 1 - 3Year 80%
- 5 years plus 20%

Do you measure firms funding capacity

- Yes 80% No 20%
- Methods include paying up extra on pricing; overfunding on normal course of business.

- Unusually large outflows in Retail/Wholesale sector
- Key Asset prices in Reversal
- Net Wholesale Outflows increasing
- Top 10 depositors as a percentage of top 100 depositors
- Wholesale deposits as a proportion of Balance Sheet
- Customer Deposits over Customer Assets
- Spread on Subordinate Debt Issued
- Rating Agency's credit rating
- Credit Default Swaps – Monitor spreads
- Commodity prices evaluation

Stress and Scenario Testing

What stress Tests/ scenarios do you run

- 2 notch downgrade in long term ratings ratings (Most Common and used as benchmark)
- London terror attacks
- CP Market Collapse
- House Price Collapse
- Distribution channel risk..(more ability in online products balances to be lost quickly)
- IT “ Superbug” destroying systems platforms

Time Frame for stress Tests

- 0-8 days 20%
- 0-1 month 80%
- 0-3month 20%
- >3m 30%

Stress and Scenario Tests

Do you recognise inward standby lines in your stress test

- No 100%
- Yes 0 %

To what extent do you rely on central bank actions

- Assume full support 15%
- Assume regulatory limits/ratios relaxed 80%

How do you determine stress parameters

- Subjective assessment 30%
- Statistical history 70 %

- Data base of quantitative behavioural assumptions under stress
- Wholesale funding under stress – rollover factors
- Drawdowns of committed lines
- Retail balance sheet behaviour- withdrawal assumptions
- Intra day and payment issues

- Coming forward in future ALMA analysis