Liquidity Stress

Web Meeting – 30th August 2011

Meeting Host: Joe Di Rollo
Founder & Managing Director ALMIS International Limited

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Agenda

- *Introduction*
  - *Guest treasury experts*
- Quick ALMIS V9 overview
- Stress Assumptions used by client firms
- What’s next

Liquidity Stress Testing Dedicated Module - Overview

- Opening B/S - Liquidity
- Stress Assumptions
- Daily Cash-Flow to calculate how quickly will you run out of available cash

Liquidity Stress Assumptions

- Lending
  - Pipeline
  - Repayments
  - Redemptions
- Funding Withdrawals
  - Retail
  - Wholesale
- Instrument Haircuts
- Other

Client Firms

Liquidity Stress Assumptions from
10 client responses

Assumptions - Lending

- Pipeline
  - All advances
  - Actual commitments per MI report
  - Post offer cases completed
  - 75% pipeline advanced in month with 25% advanced in first 8 days
  - 25% of post offer in first 2 weeks
  - Not included

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Assumptions - Lending

- Redemptions
  - Not stressed
  - 50% of forecast
  - Haircut on forecast split between residential (10 - 20%) and commercial (20 - 50%)
  - 1.25% per month of mortgage loan book – considered to be minimum experienced
  - Forecast redemptions

Assumptions - Lending

- Repayments
  - Not stressed
  - Haircut on forecast split between residential (5 - 10%) and commercial (10 - 25%)
  - 100% on last day of month
  - 100% on even flow

Wholesale Funding

- 0% rollover
- 0% first 2 weeks – thereafter 20% type A & 25% type B
- 0% first 2 weeks
- 0% local authority, 50% building society (to 1 month term)
- Double budgeted loss
- Not stressed

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Retail Funding

- 5 times average in last 2 years + an amount over protected limit
- 10 – 40% of balance over 2 weeks (in 5% increments
- 20% Type A, 10% Type B over 14 days followed by 25% of that per month
- 20% Type A, 5% Type B
- 10% in month with 5% in first 8 days
- Amount (£2m) per day
- Differentiate between penalty / notice
  - No penalty per day 0.15% Type A, 0.10% Type B
  - Penalty/notice per day 0.10% Type A, 0.06% Type B

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Fixed / Bonus Retail

- No withdrawal before maturity, 100% at maturity
- 75% immediate withdrawal at maturity
- Differentiate between standard & best buy
  - Standard 60% Type A, 30% Type B
  - Best Buy 85%
- Bonus accounts
  - 5% Type A, 4% Type B immediately after maturity
  - 1% daily following bonus expiry

Liquid Asset Haircuts

- – Gilts 1 – 5yrs 5%, > 5yrs 10%
- – CD’s < 1yr 10%, >1 yr 20%

- Assessment by treasury consultant
- Breakable deposits – according to penalty
- None – particularly T Bills

Liquid Asset Haircuts (continued)

Description	Sovereign paper	Government Guaranteed agencies	Bank & Building Society Government Guaranteed	RMBS & covered bonds backed by residential mortgages. Not own named.	Corporate bonds, commercial paper, & CDs
Instruments	Gilts	T-Bills	CD Guarantee, FRN Guarantee, MTN Guarantee	MBS	CD, FRN, MTN
Moody's Rating	Aa1, Aa2, Aa3, AAA	Aaa	Aaa	Aaa	Aaa, Aa1, Aa2, Aa3, A1, A2, A3
Floating rate	99.5%	99.0%	99.0%	91.2%	72.5%
Fixed Rate under 1 yr to maturity	99.5%	98.9%	98.9%	91.2%	72.5%
Fixed rate 1-3 yrs to maturity	99.5%	97.4%	97.4%	89.0%	70.4%
Fixed rate 3-5 yrs to maturity	99.0%	95.8%	95.8%	88.0%	67.2%
Fixed rate 5-10 yrs to maturity	98.9%	94.3%	N/A	85.8%	65.1%
Fixed rate 10-20 yrs to maturity	97.4%	92.8%	N/A	83.7%	65.1%
Fixed rate 20-30 yrs to maturity	95.8%	91.3%	N/A	80.5%	N/A
Fixed rate 30+ yrs to maturity	94.3%	89.9%	N/A	78.4%	N/A

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Liquid Asset Haircuts (continued)

Credit Quality	Residual Maturity (years)	Haircut
AAA to A-	0-1	0.5%
	1-3	1.5%
	3-5	2.5%
BBB+ to BBB-	0-1	5.5%
	1-3	6.5%
	3-5	7.5%

Other cash-flows

- Savings tax payments
- CSA agreements with a +/- 2% & +/- 3% shift on day 1
- Bank daylight limit
- Overhead amount per day

Nine Points – William Webster

- **Severe yet plausible**: Can you justify the stresses being used? What are the core scenarios? How do they pan out and affect you?
- **Expect challenge**: It's easy to convince yourself but can you convince others?
- **Use hard data**: Qualitative stresses work much better with quantitative support (and vice versa).
- **Going forwards**: What does your buffer look like in the future? Are there any surprises?
- **Recalibrate regularly**: After all markets don't respect annual reviews.
- **Contingency funding**: What are the scenarios and what can you do? (If possible quantify).
- **Where are the pinch points?** Are there particular times in the year that create problems? Do concentration risks need dilution?
- **Stress costs money**: Is it in your funds transfer pricing - does affect what you do
- **Good news**: Basel III - stress horizons, will 30 days replace 3 months?

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Other issues raised

- FSA like you to consider selling non buffer negotiable instruments first
- B0fE reserve account should not be utilised ‘first’
- Is it not ‘mission impossible’ to get any sense of withdrawal assumptions if we have never been under an actual stress?
  - Agreed but FSA still like to see some sort of ‘observed’ evidence

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Potential for future ALMIS developments

- Lending Repayment % by category
- Withdrawal % into more time buckets eg

  < 1mth, < 3mth, < 6mth etc
- More decimals for withdrawal %
- % withdrawal at fixed maturity different for start period
- Option of Haircut % by next re-pricing instead of contractual maturity

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Guest Speakers

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