

Liquidity risk

Exhibit 1

Liquidity risk as element of banking risk

Source: SWIFT

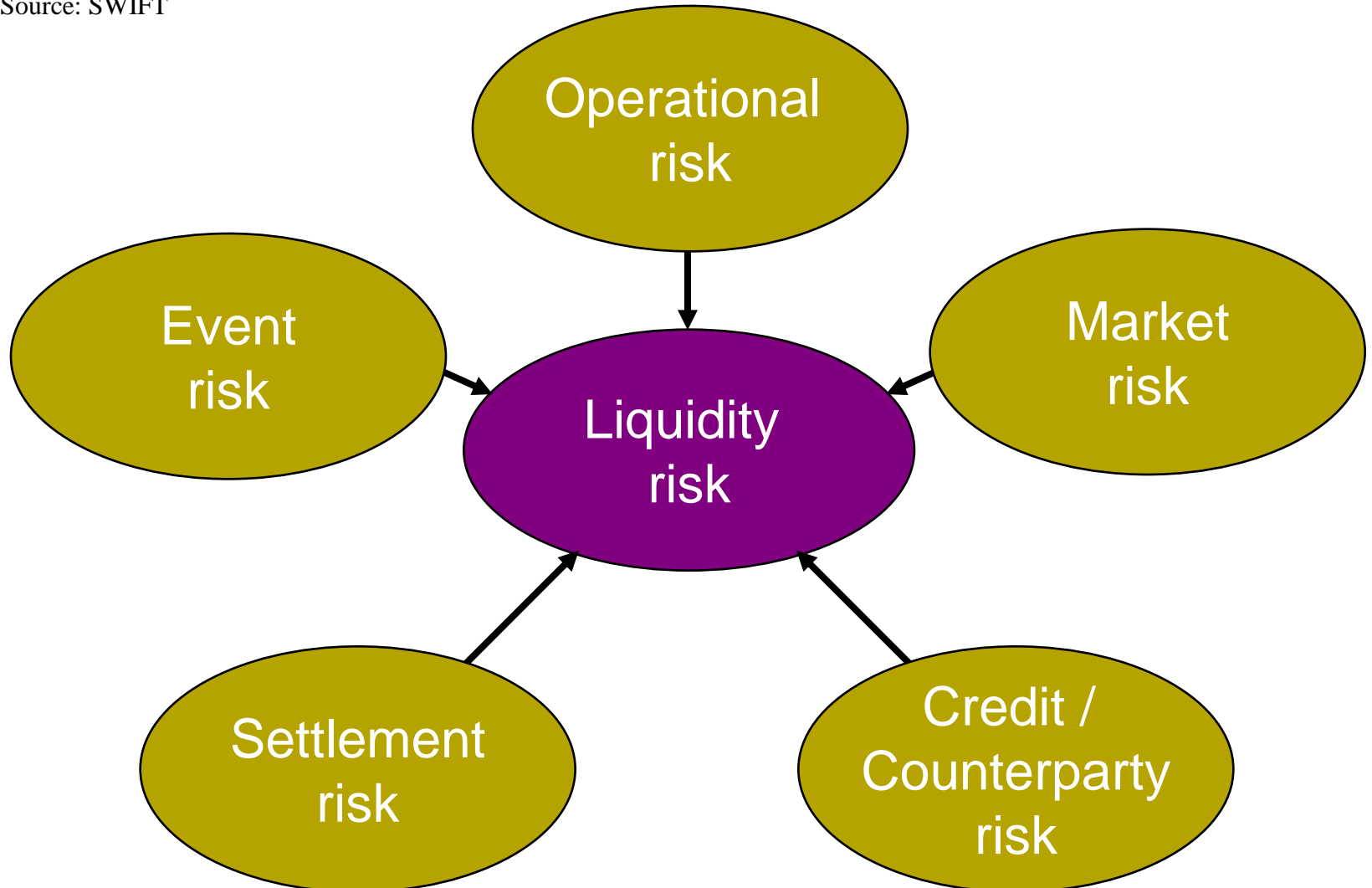
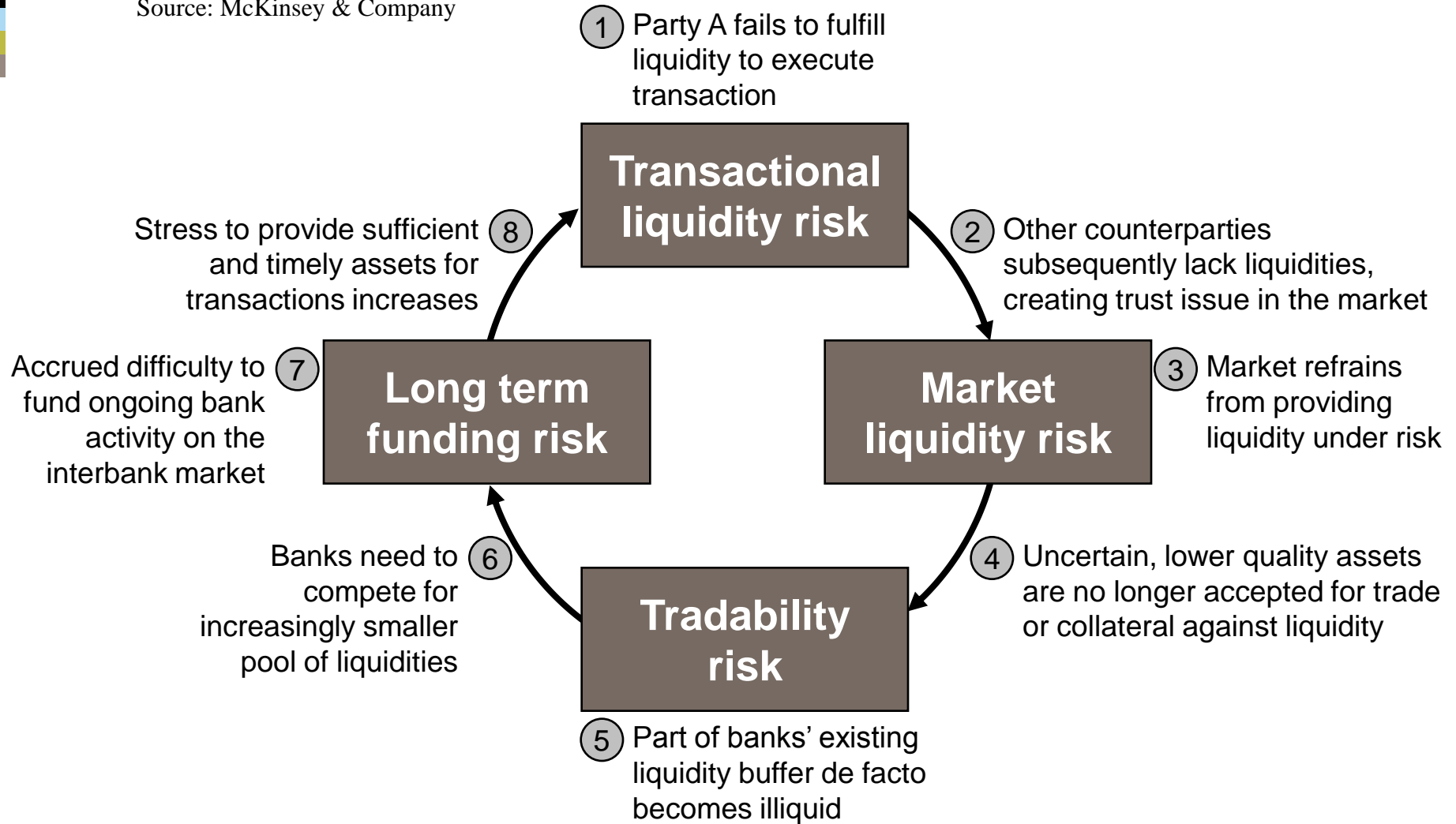


Exhibit 2

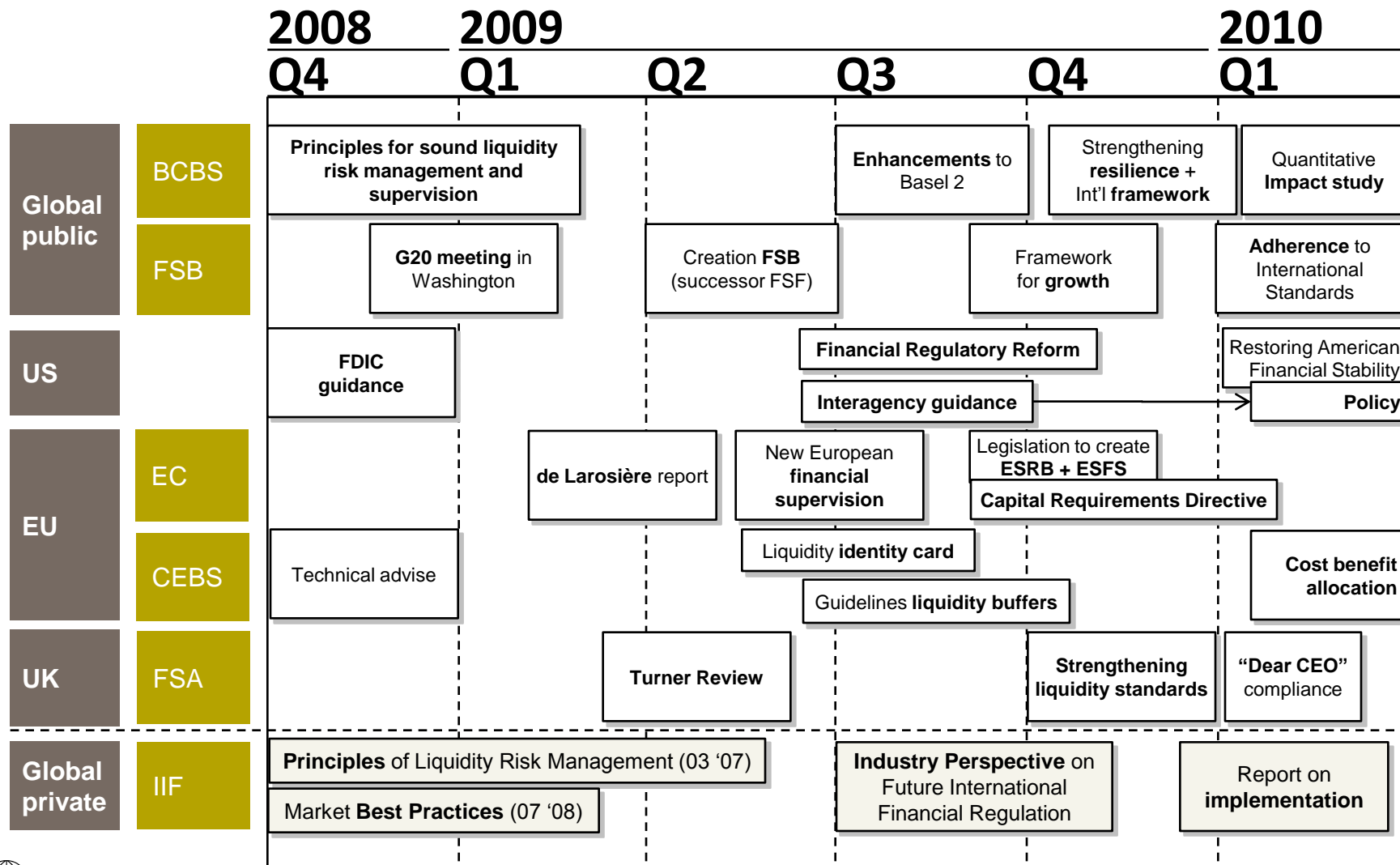
Liquidity risks could create a vicious circle

Source: McKinsey & Company



More liquidity risk (self) regulation

Source: SWIFT



Emerging gaps in a changed reality

Source: SWIFT

Activity	Requirement	Challenge
Short term liquidity and collateral management	<ul style="list-style-type: none"> • Manage Intra-day liquidity positions • Predictive cash forecasting • Payment flow control • Collateral management, incl. haircuts, ... 	<ul style="list-style-type: none"> • Current visibility only 60-70% • Adequate liquidity management system • Receive granular intra-day cash reports • Central view across the bank
Funding operations	<ul style="list-style-type: none"> • Define funding strategy, contingency plan • Support operations and structural growth 	<ul style="list-style-type: none"> • No exact view on intra-day requirements
Longer term risk assessment	<ul style="list-style-type: none"> • Calculate forward risk exposure • Define counter balancing capacity • Run stress tests, identify periods at risk 	<ul style="list-style-type: none"> • Adequate liquidity risk system • Lack of granular, timed, transaction data • Does analysis result in action?
Reporting	<ul style="list-style-type: none"> • Report to management, board, supervisor 	<ul style="list-style-type: none"> • Evolving requirements • Local vs. global • Bank activities in multiple jurisdictions

Two immediate, foundational improvements

Source: SWIFT

Intra-day visibility

Better communication flows

- Inside your bank: systems, business lines, divisions, ...
- Branches and subsidiaries (not by spreadsheet!)
- Account holding institutions and agents
- Systems and market infrastructures

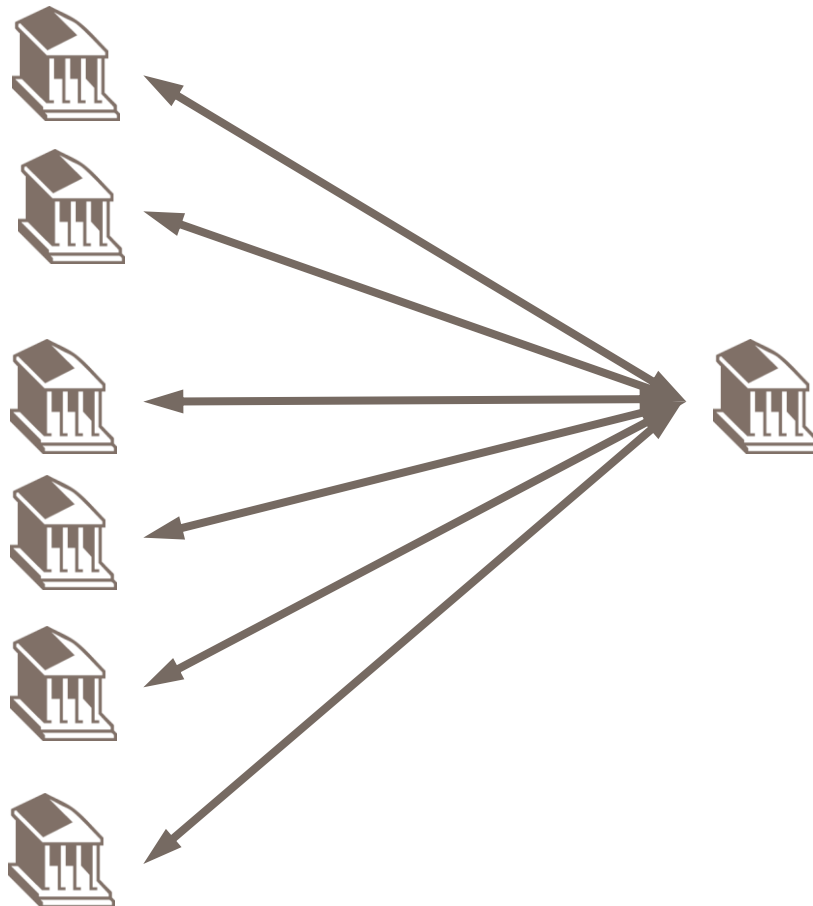
Forecasting capability

Transaction data warehouse

- Determine intra-day liquidity risk
- Funding: how 'well or sick' are you?
- Risk analytics, stress tests, ...
- Reporting of daily flows



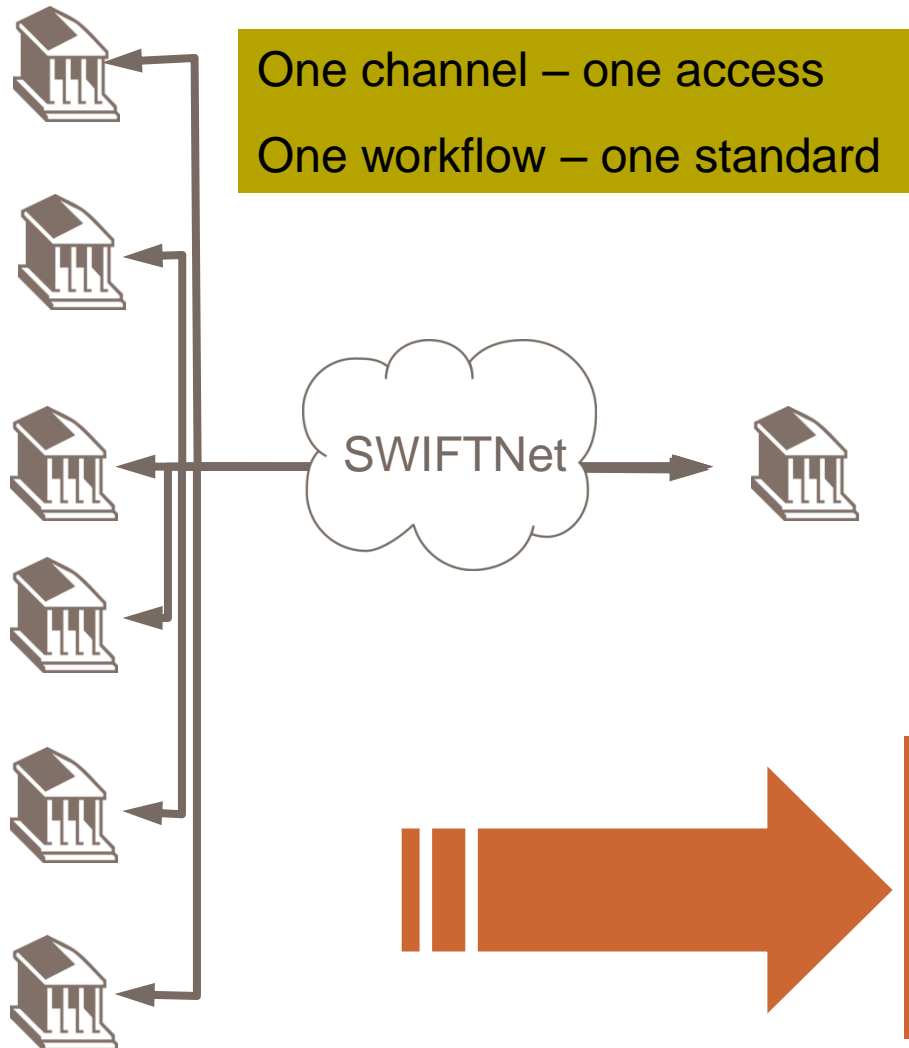
Visualisation of available balances / transactions via multiple web-tools



Proprietary solutions

- Intraday reporting?
- Real-time data delivery/access?
- Data format not standardised
- Network security?
- Require to maintain different applications/terminals

Intraday visibility of your cash positions



One channel – one access
One workflow – one standard

- Single interface
- Granular and standardised information
- Automated data gathering in real-time

- Centralised view of liquidity risk management
- Opportunities to maximise returns on cash
- Satisfy increasing regulators' scrutiny



Business Case for Liquidity Management

- ❑ Be prepared for 'Lehman-Risk'
- ❑ Reduce / Avoid risks of overdraft
- ❑ Reduce unnecessary settlement risk-limit-usage
> free up limits for more trades
- ❑ Reduce turn-around-time of investigations (start earlier, finish earlier)



Summary

1. **The specific nature of liquidity risk** has driven the banking community to
2. **More regulation and best practice**, and this
3. **Changed reality is pointing to gaps in current practice**, into which
4. **Banks need to invest now**, whilst at the same time
5. **Working together**, for the benefit of each



Your Contact



Stephan Kraft

*Senior Account Director
Central & Eastern Europe*

SWIFT

Fischhof 3/6
A-1010 Vienna
Austria

- T +43 1 740 40 2374
- F +43 1 740 40 2379
- M +43 664 636 2090
- E stephan.kraft@swift.com
- W swift.com

