



Die Orchidee. Wunderschön
und überall in der Welt zu
Hause. Botaniker benannten
bis jetzt 30.000 Arten.

Höchster Anspruch. MMCG 26.09.2017 Intraday Liquidity

Definition and sources and usage of intraday liquidity / intraday liquidity risk

- Intraday liquidity

Funds which can be accessed during the business day, usually to enable banks to make payments in real time

- Intraday liquidity risk

Risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet payment obligation on time, thereby affecting its own liquidity position that of other parties

- Sources

- Own sources: Reserve balances at the central bank; collateral pledged with the central bank or ancillary systems that freely converted; unencumbered assets that freely converted into intraday liquidity; secured and unsecured, committed and uncommitted credit lines available intraday; balances with other banks that be used for intraday settlement
- Other sources: Payments received form other LVPS (Large value payment systems) participants; payments received from ancillary systems; payments received through correspondent banking services

- Usage

Payments made to other LVPS participants; payments made to ancillary systems; payments made through correspondent banking services; secured and unsecured, committed and uncommitted credit lines offered intraday; contingent payments

Intraday liquidity

SREP (Supervisory Review and evaluation process) is basis for monitoring Intraday liquidity since 2016

Risk to capital ICAAP

Capacity of the institution to bear capital risk

- Credit Risk
 - Counterparty Risk
 - Market and operational risk
 - Interest rate risk of the banking book

Risk to liquidity and funding ILAAP

Assessment of liquidity risk and the adequacy of liquidity sources to bear these risks

- Liquidity risk
 - Funding risk
 - Management of the above risks

Business Model

Assessment of the sustainability of each bank's set up

- Wide array of activities or focus on only a few lobs

Governance and risk management

Assessment of the organisational structure

- Monitoring managing bodies
 - Checking whether risks are managed properly

Main drivers of significant surplus liquidity in many banks

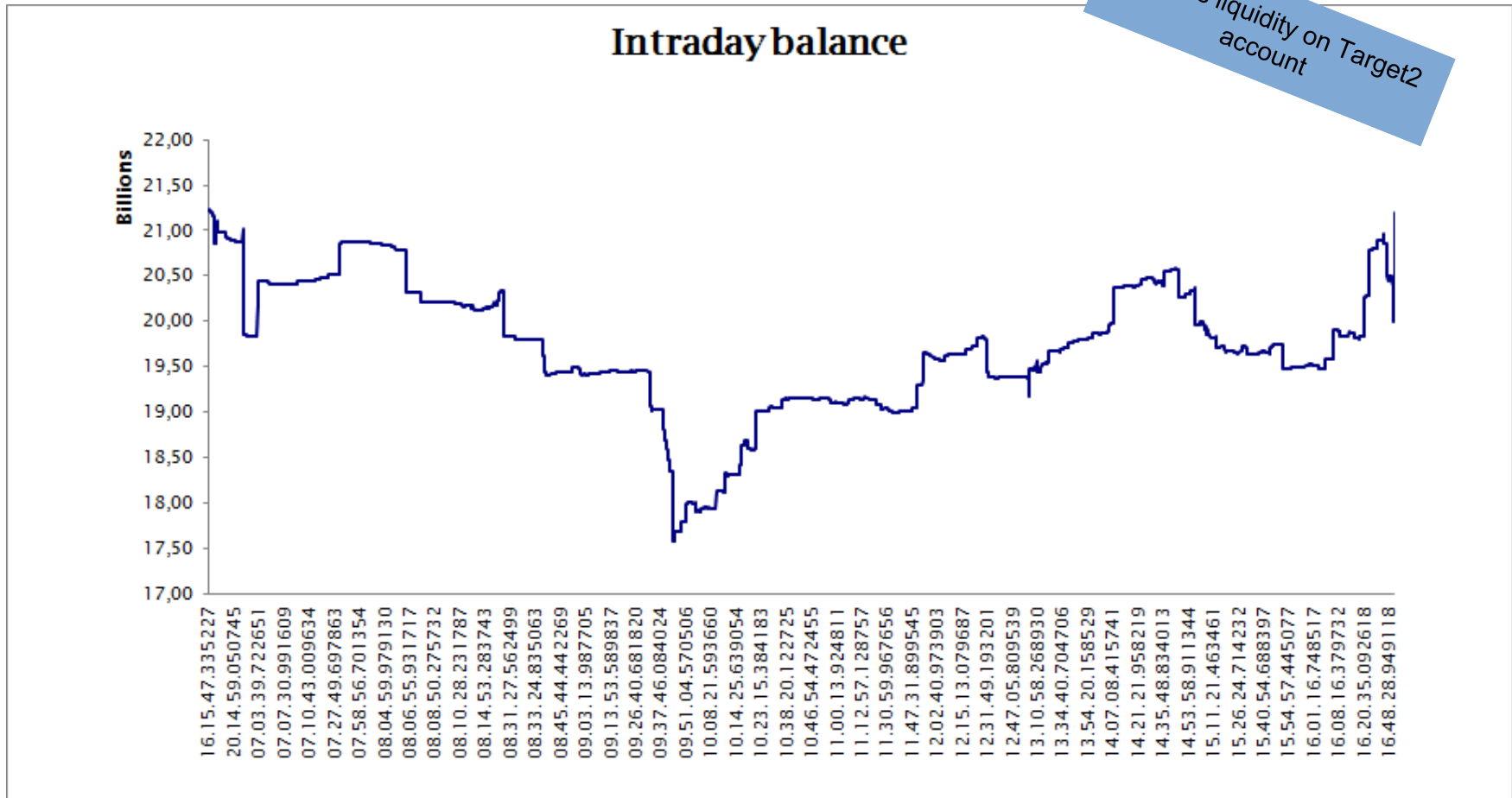
- Very generous liquidity provision through central banks
 - CBs worldwide have undertaken quantitative easing for several years without sterilizing the liquidity impacts
 - CBs have additionally offered very cheap long term funding that has been regarded as opportunity and many banks have engaged in pre-funding

- Monetary policy
 - Negative interest rates can hardly be completely passed on to customers; as some asset classes are now bearing negative yields some customers are just seeking alternative investment opportunities to avoid negative yields

- Regulatory changes
 - LCR: Even though full compliance is only requested as of 2018 many banks have built additional liquidity buffers and lengthened the duration of their liabilities
 - NSFR: Even though full compliance is not yet due and some elements are still not finalized many banks have undertaken enormous efforts to attract certain types of liabilities and to lengthen the duration of their liabilities

Intraday liquidity

Course of intraday liquidity on Target 2 account

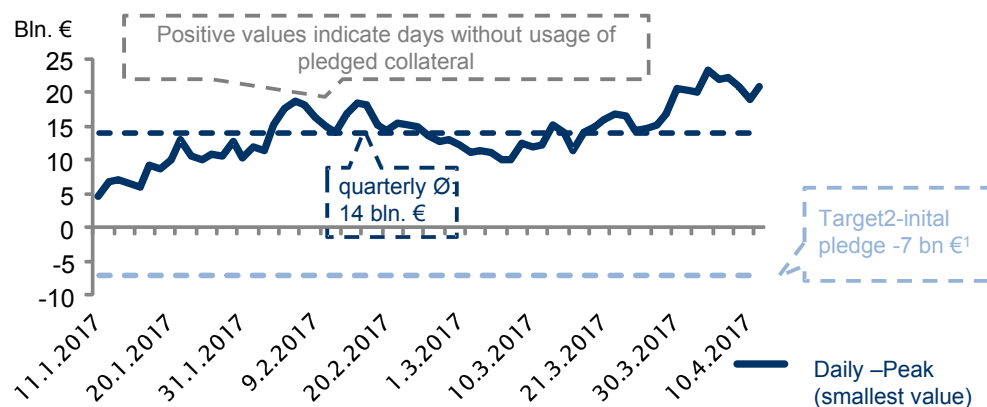


Surplus liquidity on Target2 account

Intraday liquidity

Intraday liquidity shows current high surplus liquidity within LBBW group

Target2-Account – Course of the smallest daily values



Comments

- **Target2- Account does not need any collateral**
- Due to the high surplus liquidity within LBBW group the Target 2 account has shown a positive balance since 8.12.2016
- Consequently the smallest average daily value has gone up to € 14 from € 2,6 bln in the last quarter

Overview intraday liquidity bln. € (if not mentioned differently)

Bln. € (if not mentioned differently)

	Quarter (Q1/2017)		Quarter (Q4/2016)	
	Ø	Max. 11.01.2017	Ø	Max. 13.10.2016
Usage: <i>Smallest balance vs. unencumbered collateral (Ø & max.)</i>				
Usage (in percent)	surplus	surplus	surplus	22,6%
Smallest balance	14,0	4,6	2,6	-4,0
Un- encumbered collaterals	15,4	15,5	17,2	17,7
Intraday volumes: <i>Volumes Payments effected ((Ø & max.))</i>	Ø	Max. 31.03.2017	Ø	Max. 30.11.2016
Volume payments effected	-11,9	-23,3	-13,1	-22,5
thereof savings banks	-0,8	-2,9	-0,9	-2,9
Payment time²: <i>time at which 50 % of all payments in /out were booked</i>	Ø	Theoretical Pre-funding ²	Ø	Theoretical Pre-funding ²
50% payments out (time)	10:11 am	? 01:51	10:48 am	? 01:43
50% payments in (time)	12:02 pm		12:31 pm	

Comments

- **Generous surplus liquidity makes collateral temporarily superfluous**
- As the Target 2 account showed surplus liquidity during the whole first quarter of 2017, no pledged collateral was encumbered at any time.

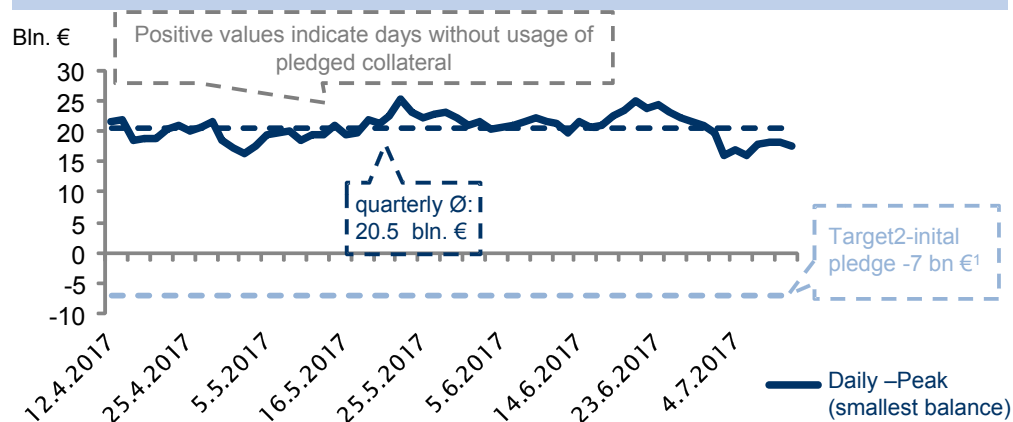
¹ This amount can intraday be increased up to € 10 bln. without any additional request; any further increase needs special approval from Collateral Management

² Main bulk of the pre-funding is related to CCPs

Intraday liquidity

Intraday liquidity shows current high surplus liquidity within LBBW group

Target2-Account – Course of the smallest daily values



Comments

- **Target2- Account does not need any collateral for the second quarter in a row**
- Due to the high surplus liquidity within LBBW group the Target 2 account has shown a positive balance since 8.12.2016.
- The smallest average daily value increased again from 14 to 20,5 bln € during the second quarter

Overview intraday liquidity

Bln. € (if not mentioned differently)

	Quarter (Q2/2017)		Quarter (Q1/2017)	
	Ø	Max. 05.07.2017	Ø	Max. 11.01.2017
Usage: Smallest balance vs. unencumbered collateral (Ø & max.)				
Usage (in percent)	Aktiv	Aktiv	Aktiv	Aktiv
Smallest balance	20,5	15,9	14,0	4,6
Unencumbered collaterals	13,6	13,8	15,4	15,5
Intraday volumes: Volumes Payments effected (Ø & max.)	Ø	Max. 28.04.2017	Ø	Max. 31.03.2017
Volumen payments effected	-12,4	-25,7	-11,9	-23,3
thereof savings banks	-0,8	-3,2	-0,8	-2,9
Payment time ²: time at which 50 % of all payments in /out were booked	Ø	Theoretical Pre-funding ²	Ø	Theoretical Pre-funding ²
50% payments out (time)	09:59 am	? 01:56	10:11 am	? 01:51
50% payments in (time)	11:55 pm		12:02 pm	

Comments

- **Increased significant surplus liquidity keeps collateral superfluous**
- The generous surplus liquidity increased even more during the course of the second quarter – no pledged collateral was encumbered at any time

¹ This amount can intra day be increased up to € 10 bln. without any additional request; any further increase needs special approval from Collateral Management

² Main bulk of the pre-funding is related to CCPs.

Intraday liquidity

Conclusion

Sources of intraday liquidity

- Unencumbered assets that can freely be converted in liquidity e.g. LCR / NSFR / ASF portfolios
- Balances on wholesale / retail accounts
- Term funding through deposits
- Credit lines

Costs of intraday liquidity

- Funding costs for all type of assets
- Funding costs for balances on accounts
- Funding costs for deposits
- Charges on CB / nostro accounts
- Provisions for credit lines
- Balance sheet costs



Intraday liquidity is created through various channels and its cost is determined by several factors of which not all can be distributed properly to the relevant LOBs especially in the current environment