SPI Project:

“Enhancing banks’ liquidity risk management”

Questionnaire on

Banks’ experience in liquidity risk management

Prepared by

SPI Albania Secretariat

Contact persons:
Ms.Endrita Xhaferaj, Director, Financial Modernization Program and Analytics
endrita.xhaferaj@spi-albania.eu
Mrs. Anuela Ristani, Director of Operations, anuela.ristani@spi-albania.eu
Address: Twin Tower I, Kati 6, Apt. A3. Tel. +355 42 280 359; Fax. + 355 42 280 371

I. Context

Bank of Albania is seeking to enhance banks' liquidity risk management by reviewing the regulatory framework according to international guidelines and best practice.

The actual regulatory framework provides only principles for the liquidity management, and banks have independence in managing the liquidity level based only on principles set by the BoA, with no quantitative prudential ratios (thresholds). These principles include:

- Diversification of funding sources according to maturity, type of bank instrument and bank's clientele;
- The degree of bank's integration into the money market, short-term bonds issued and traded in the market;
- Formulation of its commercial policy alongside with financial planning in order to avoid any potential deficiency in resources necessary for its developmental plans, and to reduce any structural asset and liability shortcomings resulting from differences between the maturity dates agreed and the actual ones.

Based on this general regulatory framework, the liquidity level differs from bank to bank.

In order to account for financial market developments as well as lessons learned from the financial crisis of last year, the Basel Committee has conducted a fundamental review of its 2000 Sound Practices for Managing Liquidity in Banking Organizations and issued in September 2008 Principles for Sound Liquidity Risk Management and Supervision.

These principles emphasize the importance of supervisors assessing the adequacy of a bank's liquidity risk management framework and its level of liquidity, and suggest steps that supervisors should take if these are deemed inadequate.

Albeit the banks' current good levels of liquidity, it is expected that Albania will start feeling the consequences of the world's financial crisis through decreased level of remittances. In addition, tight conditions on liquidity in the international markets might influence the activity of the banking system in Albania. On such grounds, and driven by the need to align Albanian regulatory framework to the revised Basel Committee guidelines, BoA is considering the introduction of quantitative minimum/prudential ratios, in order to prevent the occurrence of systemic liquidity difficulties.

SPI Albania is running a project on enhancing Liquidity Risk Management with the objective to review the liquidity management regulation in order to introduce quantitative prudential ratios and to align it with the international practices.

PWG composition

Project Owner (PO): **Mr. Indrit Banka, Bank of Albania**

Project Manager (PM): **Mrs. Miranda Ramaj, Bank of Albania**

Deputy Project Manager (DPM): **Mrs. Enkelejda Bargjo, Tirana Bank**

Technical Anchor (TAN): **One pier reviewer from Central Banks in the region**

Project Working Group Members:
Ms. Donata Totokoci, ProCredit Bank
Ms. Persefoni Papa, ProCredit Bank
Ms. Artiola Agalliu, Alpha Bank-Albania
Mr. Altin Sholla, Bis Banca
Mr. Christian Canacaris, RBAL
Mr. Rigels Kristo, RBAL
Mr. Altin Koci, ICB
Ms. Jola Dima, Intesa Sanpaolo Bank
Ms. Eralda Gurga, Emporiki
Ms. Gresa Panajoti, Emporiki
Ms. Miranda Kacani, BKT
Ms. Elvira Jaze, FIB
Mr. Admir Ramadani, FIB
Mr. Erjon Tace, Banka Popullore
Mr. Niko Kotanika, NBG

II. Purpose of the banking survey

The purpose of this banking survey is to acquire information on the Albanian banks' individual experiences with the risk management liquidity. Furthermore, it aims at identifying the particularities of banks' internal systems for liquidity risk management that could serve as reference for reviewing the actual regulatory framework.

III. Procedures to run the banking survey

You are kindly requested to support the clarification of the above mentioned issues by answering this questionnaire.

We estimate that filling in the questionnaire would take: for the qualitative aspects - 10 minutes-, for the quantitative aspects – 20 minutes.

Please send your answers to SPI Secretariat who stands ready to offer you more details.

Your answers will be treated in strict confidentiality. The results of the banking survey will be disclosed only at aggregate level.

Please send your answers by **March 26, 2009.**

For eventual further clarification needs, please indicate below the contacts of the person who filled in the questionnaire**:**

Name:

Position:

Bank:

Email address:

Tel/Fax:

Thank you for participating in this survey!

IV. Questionnaire

IV.1. Qualitative aspects of liquidity risk management

1. Does your bank have a strategy for liquidity risk management approved by banks' management? Please tick in the respective box.

Yes	No

1.1. If yes, is this strategy revised? Please tick in the respective box.

Yes	No

1.2. If yes, how often do you revise it? Please tick in the respective box.

a. 6 months	b. 1 year	c. 2 years	d. Other (please specify)

1.3. What does the strategy cover? Please tick in the respective box.

	Yes	No
a. Normal course of business		
b. Crisis situations		

1.4. Does it include regular liquidity monitoring and management?

Yes	No

1.5. If yes, please state the periodicity of monitoring and reporting by ticking in the respective box.

Periodicity	a. Daily	b. Weekly	c. Monthly	d. Other (please specify)
1. Monitoring				
2. Reporting				

2. Does your bank use *stress tests* on liquidity? Please tick in the respective box.

Yes	No

2.1. If yes, what types of scenarios are in use? Please list below

Type of Scenario	Frequency of running stress tests scenarios
1.	
2.	

….	

2.2. Does your bank have different scenarios for types of deposits, currency and type of depositors? Please tick in the respective box.

Yes	No

3. Does your bank continuously monitor *bid-ask spreads* for financial instruments (main liquidity indicator on securities)? Please tick in the respective box.

Yes	No

4. Has your bank set *warning signals* for possible liquidity crises? Please tick in the respective box.

Yes	No

4.1. What are the events you consider as warning of such crises?

Type of event	No
1.	
2.	

IV.2. Quantitative aspects of liquidity risk management

1. Do you use internal liquidity indicators? Please choose from the options given in the table below, add others indicators if you have, and describe details in the columns.

No.	Description of the liquidity indicator	Definitions of the factors used to calculate the indicator (assets, liabilities, gap)	Internal Limit of the bank	Period for monitoring of the indicator
1.	Ratio of liquid assets against total deposits			
2.	Ratio of liquid assets against total assets			
3.	Ratio of liquid assets against short-term liabilities			
4.	Liquidity ratio by maturity time bands			
5.	Ratios of maturity transformation of short term sources in long term placements			
6.	Indicators of deposit concentration (individually and as group of related parties), volatility and sensitivity			
7.	Maturity Mismatches (related to the size of the maturity gaps; cash inflows / cash outflows including off-balance sheet items)			
8.	Short term liquidity GAP			
9.	Total negative mismatches between assets and liabilities in respect of maturities			
10.				
11.				
….				

2. When building up indicators on liquidity, do you use risk factors (weights 0-100%) for assets and liabilities according to their degree of liquidity?

Yes	No

1.1. What type of risk factors do you use? Please list above

Risk Factors	
1.	
2.	
….	