

A FIN8003 - Workshop 9

Banking and Financial Intermediation

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1 MCQ

1. The inability of an FI to meet the demands of liability holders or asset claimants is:
 - liquidity risk
 - credit risk
 - foreign exchange risk
 - capital risk
2. Deposits that provide a relatively stable, long-term source of funds are called:
 - core deposits
 - savings deposits
 - loanable funds
 - interbank funds
3. An FI that practises purchased liquidity management is unlikely to do which of the following to raise funds?
 - interbank borrowing
 - issue wholesale certificates of deposit
 - sell assets at fire-sale prices
 - sell notes or bonds
4. Which of the following is not a characteristic of stored liquidity management?
 - DIs tend to hold excess reserve assets to meet liquidity drains
 - The cost of using excess cash is the foregone return since cash is a non-earning asset
 - The balance sheet will contract when the liquidity adjustment mechanism is used
 - The balance sheet will expand when the liquidity adjustment mechanism is used
5. Abnormal deposit drains may occur for which of the following reasons?
 - Sudden changes in investor preferences regarding holding non-bank financial assets relative to deposits.
 - Concerns about a DI's solvency relative to other DIs
 - Failure of a related DI leading to increased concern about the solvency of other DIs
 - All of the listed options are correct.
6. Liquidity risk can arise from which of the following activities on the asset side of a bank's balance sheet?
 - Deposit withdrawals
 - Borrowing additional funds
 - Changes in the value of investment securities portfolios
 - Increasing equity capital

7. The term “fire-sale” in the context of liquidity risk refers to:
- A strategy where banks reduce interest rates to attract more deposits.
 - A situation where banks must sell assets quickly at reduced prices to generate liquidity.
 - A method of restructuring bank loans.
 - The process of issuing long-term debt.
8. Which of the following is a key purpose of the Liquidity Coverage Ratio (LCR)?
- To ensure banks maintain a stable funding profile over a one-year period.
 - To provide financial support to developing countries.
 - To ensure banks hold enough high-quality liquid assets to cover net cash outflows over a 30-day stress period.
 - To limit the reliance on short-term wholesale funding.
9. Which of the following is considered “stable funding” under the NSFR?
- Short-term wholesale funding
 - Long-term retail deposits
 - High-risk, short-term loans
 - Overnight borrowing from other banks
10. In the context of NSFR, stable funding sources are expected to be reliable for what duration?
- 30 days
 - 6 months
 - 1 year
 - 5 years
11. Which type of asset is most likely to require stable funding under the NSFR?
- Cash reserves
 - Short-term government bonds
 - Long-term illiquid loans
 - Overnight loans
12. Which of the following could lead to a bank failing to meet its NSFR requirements?
- A sudden influx of short-term deposits
 - Excessive reliance on short-term wholesale funding
 - Increase in long-term stable funding
 - Reducing the bank’s loan portfolio

2 Exercise

The following table provides the data on LCR and NSFR of the “Big 4” Australian banks for FR2023. It shows that NAB has the highest LCR of 140%.

Let’s focus on NAB and conduct some exercise!

	CBA	NAB	ANZ	Westpac
Liquidity Coverage Ratio (LCR)				
Average High Quality Liquid Assets	189,419	209,561	267,905	181,882
Average Net Cash Outflows	144,657	149,665	201,528	136,200
Average Liquidity Coverage Ratio	131.00	140.00	132.90	134.00
Net Stable Funding Ratio (NSFR)				
Available Stable Funding	860,999	646,508	625,285	707,893
Required Stable Funding	693,453	556,016	537,430	615,341
Net Stable Funding Ratio	124.00	116.00	116.35	115.00

Instructions

1. Locate and download the most recent “Pillar 3” report of NAB. It should be the Third Quarter Pillar 3 Report for 2024, released in August 2024. You can start with [NAB’s regulatory disclosures](#).
2. Read and examine the section on **Liquidity Coverage Ratio**.
3. Conduct research and try to answer the following questions.

Questions

1. What is the average LCR of NAB for the 3 months ended 30 June, 2024? Compared to the previous period (3 months ended 31 March, 2024), is LCR higher or lower?
2. What is the reason for the decline in LCR?
3. What is the largest component of cash inflows?
4. Why is the HQLA reported as an “average”? How many data points were used to compute such average? Provide reference to the relevant prudential standard in Australia.