LIQUIDITY RISK MANAGEMENT REQUIREMENTS FOR BANKS

Reserve Bank of Fiji
Banking Supervision Policy Statement No: 9A

NOTICE TO BANKS
LICENSED UNDER THE BANKING ACT 1995

CONTENTS

1.0 Introduction

1.1 This Policy Statement sets out the minimum liquidity risk management requirements for licensed banks in Fiji. Under the Policy, banks are required to manage current and future liquidity positions in a prudent manner. These minimum standards are issued under section 14(3) of the Banking Act 1995.[1]

1.2 In developing these liquidity risk management requirements, the Reserve Bank has incorporated fourteen principles advocated by the Basle Committee on Banking Supervision in "Sound Practices for Managing Liquidity in Banking Organisations."

2.0 Background and Outline of Approach

2.1 In order to ensure that each bank practices sound liquidity management to be able to fully meet its contractual obligations, the Reserve Bank of Fiji has set out requirements as stated in this Policy.

2.2 Liquidity risk involves the inability to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required, without incurring additional costs or inducing a cash flow crisis. Primarily, an effective and strong liquidity risk management policy and framework will ensure that a bank has sufficient liquid assets to meet liabilities that fall due in the short term and to meet any unexpected demands for funds by its depositors or creditors. The effectiveness of a bank's liquidity risk management will determine the extent to which the institution may be subject to cash flow crisis and additional costs.

2.3 Each bank must maintain, under Section 40 of the Reserve Bank of Fiji Act, a deposit with the Reserve Bank for the purposes of fulfilling the Statutory Reserve Deposit requirements. Penalties will be levied on the prescribed rate if actual holding falls below 2 percentage points of the minimum requirement over the holding period or if the monthly required holdings is not held over the prescribed holding period.

2.4 Each bank must at all times, under Section 29(2) of the Banking Act, hold sufficient assets, other than goodwill and intangible assets, in Fiji of a value not less than the total amount of its deposit liabilities in Fiji.

[1] Section 14(3) of the Banking Act states that "Licensed financial institutions and where required by the Reserve Bank, associated persons, shall be subject to the supervision, regulations, rules, orders or other directives of the Reserve Bank which may be issued in accordance with the provisions of this Act, of the Reserve Bank of Fiji Act, or any other law."

3.0 Minimum Requirements of this Policy Notice

3.1 This Policy prescribes the following minimum liquidity risk management requirements for banks:

(i) **Each bank must develop and document a liquidity risk management policy, endorsed by the institution's Board of Directors and submit such policy to the Reserve Bank;**

(ii) **The liquidity risk management policy and its assumptions are to be reviewed and submitted to the Reserve Bank annually;**

(iii) **Tools used to determine liquidity position, must as a minimum include minimum identified indicators, maturity mismatch analysis, cash flow projections and other indicators as the institution may utilise;**

(iv) **Monitoring of liquidity should include the establishment of an Asset Liability Committee, adequate information systems, internal controls, intra-group liquidity risk management and liquidity reviews;**

(v) **The bank must have a measurement, monitoring and control system for its liquidity positions in all the currencies in which it conducts business; and**

(vi) **Each bank must have an effective and extensive system of contingency planning.**

4.0 Liquidity Risk Management Policy

4.1 The Reserve Bank requires that each bank develop and document a liquidity risk management policy for current and future liquidity needs. A bank must strictly adhere to its liquidity risk management policy.

4.2 A bank's liquidity policy must be reviewed annually, at the beginning of the bank's financial year and submitted to the Reserve Bank within 90 calendar days of the commencement of the financial year. Any changes to a bank's liquidity risk management policy during the financial year, must be forwarded to the Reserve Bank within one calendar month of such change.

4.3 Annual reviews must consider the changes in the bank's operating circumstances and continuously adopt best market practices. The annual reviews must also consider the assumptions utilised in the calculation of liquidity position to determine their validity. These would generally constitute the four broad categories of assets, liabilities, off-balance-sheet activities and other assumptions.

4.4 The Reserve Bank shall assess the adequacy and rationality of the institution's in-house liquidity risk management policy an may require an institution to adopt a more conservative approach, if the Reserve Bank is concerned that the policy is detrimental to the institution's operations.

4.5 The primary responsibility for the prudent management of liquidity rests with the locally incorporated institution's Board and management. The Reserve Bank recognises that in the absence of a local Board, a foreign incorporated institution should assign such responsibilities to senior management of the bank in Fiji, unless otherwise prescribed by the Reserve Bank in writing.

4.6 It is the responsibility of the Board to ensure that there is sufficient liquidity to meet its obligations as they fall due. In addition, the Board must at all times be aware of all other risks affecting the sound operations of the bank. Other details on the Reserve Bank's requirements on corporate governance are contained in a separate Policy Statement.

4.7 The liquidity risk management policy, its objectives and limits of a bank must be communicated to all relevant staff members. Staff must have a thorough understanding of the facets of the in-house liquidity risk management policy and be updated of changes in the policy annually, or more frequently when revisions are effected.

4.8 The requirements of this Policy will be applied on a consolidated basis to the operations of the licensed bank and to all subsidiaries controlled by the institution in Fiji (and all overseas branches of locally incorporated licensed banks), unless otherwise advised by the Reserve Bank in writing.

5.0 Key Requirements of a Liquidity Risk Management Policy

5.1 Key Requirements

5.1.1 The liquidity risk management policy must reflect the daily strategy and longer-term liquidity plans, and have as its major components:
(a) the measurement of liquidity position;
(b) monitoring liquidity; and
(c) contingency planning.

5.2 Measurement of Liquidity Position

5.2.1 The following tools must as a minimum be used to determine a bank's liquidity position:

(a) <u>Indicators</u>

5.2.2 The following are the indicators that a bank should utilise at a minimum, to measure its liquidity position. A bank must establish appropriate internal guidelines on the level of the ratio. The Reserve Bank shall require the institution to effect remedial action if the ratio for the period varies considerably from the existing ratio trend for the institution.

(i) <u>Loan to Deposit Ratio</u>
Banks should compute at month end, a loan to deposit ratio. Such ratio provides a simplified indication of the extent to which a bank is funding illiquid assets by stable liabilities.

(ii) Loan to Adjusted Deposit Ratio
Banks should compute at month end, an adjusted loan to deposit ratio. Such ratio takes into account the deficiencies in the loan to deposit ratio by considering the extent to which the majority portion of the institution's business is funded by medium and long-term debt and free capital.

(iii) Liquid Assets to Total Deposits Ratio
Liquid assets to total deposits must be calculated at month end, on liquid asset holdings and total deposits.

(iv) Liquid Assets to Total Assets Ratio
Liquid assets to total deposits must be calculated at month end on liquid asset holdings and total assets.

5.2.3 The indicators and their calculation are to be provided to the Reserve Bank on RBF Form M-L1, not more than ten working days after each calendar month end.[2] The bank may use other appropriate indicators to further measure liquidity. The assumptions and their basis and any other indicators used must be outlined in the bank's liquidity risk management policy.

(b) Maturity Mismatch Analysis

5.2.4 Each bank shall use maturity mismatch ladders to compare cash inflows and outflows daily and over a series of time-bands.[3] The maturity mismatch ladder shows the net future cash flows of the institution's Fiji operations in various time-bands. A bank's net funding requirements are determined by analysing its present and future cash flows at selected maturity dates, based on assumptions of the behaviour of assets, liabilities and off-balance sheet items. Calculations will include the cumulative net excess or shortfall over the time frame of the liquidity assessment.

5.2.5 Cash inflows should be ranked by the day on which assets mature or the day a conservative estimate of when credit lines can be drawn down. Cash outflows should be ranked by the date on which they fall due, the earliest date a liability holder can present such for repayment, or the earliest date on which contingencies can be called. Significant interest and other cash flows must be considered.

5.2.6 The main emphasis is on the short and medium term, the period up to one month and one month to one year respectively. The period of up to one year is important as it may provide an early warning of potential liquidity problems and useful information from which to base strategic decisions for future funding sources. Each bank is to identify time-bands for its maturity mismatch ladders as appropriate to its business operations.

5.2.7 Banks should adopt a conservative approach when assessing the future behaviour of cash flows and their expected maturities. Significant judgement is involved in making assumptions, which will vary for each bank, and also vary under normal business operation and crisis scenario analyses. Each bank

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[2] Form M-L1 is attached as Annex 1.
[3] Analysis of Assets and Liabilities into Time Banks is attached as Annex 2.

should document in its liquidity risk management policy in detail, the underlying assumptions relating to the behaviour of cash flows and justify the reasoning behind these assumptions.

5.2.8 When making assumptions of future cash flows, the bank must as a minimum determine:

(i) the proportion of maturing assets and liabilities that the institution will rollover or renew;
(ii) the expected growth level of new loans and deposits;
(iii) the behaviour of assets and liabilities that have uncertain maturity dates;
(iv) the behaviour of interest rates for assets and liabilities;
(v) the behaviour of cash-flows from off-balance sheet activities;
(vi) access to standby facilities, interbank money market and intra-group funding; and
(vii) the convertibility of foreign currencies.

5.2.9 As part of maturity mismatch analysis, each bank must include in its in-house liquidity risk management policy:

(i) Scenario Analysis

As the determination of a bank's liquidity is reliant on the behaviour of cash flows under different scenarios, two scenarios based on normal business operations and on crisis scenarios should be utilised to examine how funding requirements evolve. It is expected that liquidity will be managed under going-concern circumstances or normal business operations, however contingencies must also be considered.

A normal business scenario is where a bank operates without difficulties in a stable banking system, earns sufficient profit and shows no danger of running into insolvency. By establishing a normal business scenario benchmark, a bank can manage its net funding requirements under normal business operations, so that it minimises the occurrence of being faced with a very large mismatch.

Liquidity crisis scenario occurs where the bank is unable to meet all or a portion of its liabilities at maturity and displays signs of public loss of confidence in the viability of both or either the institution or the financial system, which may cause it to run into insolvency. A liquidity crisis maturity mismatch ladder provides a view of actions to take given an "abnormal" situation.

In a crisis scenario, the following questions should be considered when making assumptions:

(i) Which sources of funds will remain with the bank in the event of a crisis?
(ii) Which sources of funds are likely to run off and at what rate?
(iii) Which maturing liabilities or liabilities with early withdrawal options are likely to run off immediately?
(iv) Are there any back-up facilities that the bank can rely on?

Mismatches based on the normal business operations and crisis scenario maturity mismatch ladders should be graphed for comparisons and for a more insightful review. Maturity mismatch ladders and graphs are to be prepared at a frequency determined by ALCO.

Each bank must demonstrate that it can meet its obligations and commitments under normal business operations. For any deficit mismatches in the short term (the period up to one month) under the normal business operations maturity mismatch ladder, the bank must ensure that it can fund these mismatches in the short term under normal business operations.

A bank must be in a position to justify the assumptions utilised for determining cash flows and maturities for assets and liabilities underlying the going-concern and crisis scenarios.

The bank must prepare liquidity reports on scenario analysis conducted under maturity mismatch ladders and provide this to the Reserve Bank at each quarter end, or more frequently as may be required. Should a bank be experiencing liquidity problems it will be required to submit both the normal business operations and crisis scenario maturity mismatch ladders for supervisor review.

(ii) Maturity Mismatch Limits
The likely impact of the normal business operations and crisis scenarios should be analysed and limits for a liquidity position under the two scenarios, should be set. Maturity mismatch limits should be appropriate to the size, business and financial condition of the institution. There must be specifically defined a detailed list of scenarios, procedures and approvals necessary if exceptions to these limits or to aspects of the institution's in-house liquidity policy are made.

(c) Cash Flow Projections

5.2.10 Banks should prepare cash flow projections on a regular basis for measuring and managing their net refinancing risk. Projections should cover cash flows for assets and liabilities and also consider cash flows from planned future activities. Cash flow projections should be calculated on a monthly basis and will be assessed in the course of on-site examinations.

5.2.11 Each bank is to prepare on a monthly basis, a statement of assets and liabilities, with items classed according to its liquidity level. This can be used by the bank as a useful management tool for monitoring operations.

(d) Stock of Liquid Assets

5.2.12 Holdings of liquid assets minimise constraints in selling assets at a substantial loss and acquiring funds at higher rates of interest than the bank's operations can maintain.

5.2.13 Each bank must maintain adequate holdings of liquid assets and avoid extreme fluctuations in their ratios. The Reserve Bank may require a bank to hold a specified amount of high quality liquid assets or securities for Real Time Gross Settlement intra-day arrangements or for any other reason, and will notify the institution in writing of any such requirement and the reasons behind such requirement. The adequateness of the holdings of liquid assets will be assessed against mismatches under the normal business operations maturity mismatch ladder.

(e) <u>Diversification of Liabilities</u>

5.2.14 As part of its liquidity risk management strategies, a bank should seek to:

(i) maintain a diversified and stable funding base; and

(ii) establish strong and long lasting relationships with depositors and other liability holders.

(f) <u>Reliance on Head Office</u>

5.2.15 A foreign incorporated bank must incorporate in its liquidity risk management policy, the extent of it reliance on head office and other branches for funding. The effectiveness and willingness to provide liquidity support by head office and other branches, in the event of a crisis must be addressed.

5.3 Monitoring Liquidity

(a) <u>Asset Liability Committee</u>

5.3.1 Each bank is required to establish an Asset Liability Committee (ALCO) with the following roles:

(i) the ALCO shall be responsible for the management of the overall liquidity of the institution;

(ii) the ALCO must report directly to the Board or in the case of a foreign incorporated bank, to senior management of the institution in Fiji;

(iii) the ALCO must facilitate, coordinate, communicate and control balance sheet planning with regards to risks inherent in managing liquidity and convergences in interest rates; and

(iv) the ALCO is responsible for ensuring that a bank's operations lies within the parameters set by its Board of Directors. However, the ALCO is not responsible for formulating the in-house liquidity risk management policy.

5.3.2 In determining the composition, size and various roles of the ALCO, the Board is required to consider the size of the institution, the risks inherent in the institution's operations and the organisational complexity. There should be adequate Board oversight over the ALCO, which may be a Board Sub-Committee.

5.3.3 All banks are required to maintain written report of the deliberations, decisions and roles of the ALCO with regards to liquidity risk management.

(b) Intra-group Liquidity

5.3.4 Should a bank decentralise or delegate liquidity risk management amongst operating units, it is required to clearly state policies and procedures to be utilised for managing and monitoring liquidity, including any internal liquidity support arrangements provided to such units.

5.3.5 Where a locally incorporated bank provides significant funding and other liquidity support to subsidiaries and associates, the Reserve Bank requires that such support be included in the determination of it's the bank's liquidity position. Other requirements covering intra-group liquidity will be covered in a separate Reserve Bank Supervision Policy Statement.

5.3.6 The Reserve Bank may in writing, require a licensed bank to place limits on the significant funding and other liquidity support given by the bank, to related entities. This may be required if the Reserve Bank has sufficient reasons to believe that such transactions could have a negative impact on the operations of the bank.

(c) Internal Controls

5.3.7 Banks are required to incorporate the following in their in-house liquidity risk management policy:

(i) an adequate process for identifying and controlling risk;
(ii) the establishment of control activities, procedures and information systems; and
(iii) on-going review of adherence to in-house liquidity risk management policy, procedures and limits; and
(iv) on-going review of compliance with this and subsequent Reserve Bank of Fiji Policy Statements and directives on liquidity risk management.

(d) Management Information Systems

5.3.8 Each bank is required to ensure that its management information systems provide management and ALCO with relevant and accurate liquidity information to facilitate sound, effective and timely decision-making. Based on their average liquidity position, in-house reporting to ALCO should be conducted at least, monthly.

5.3.9 The Board should be informed at each of its meetings of the liquidity situation of the bank. Should there be any major variation in a bank's immediate or prospective liquidity position, the Board must be informed immediately.

(e) Managing Interbank Money Market Access

5.3.10 Banks should further make a realistic assessment of their ability to obtain funds from the interbank money market and not assume that they will automatically be able to access funds for their residual needs, under adverse or normal circumstances. Senior management must ensure that the appropriate staff members actively manage interbank money market access.

(f) Review of Liquidity Risk Management

5.3.11 All banks are required to ensure that monitoring and review should ideally cover:

(i) maturity profiles of cash flows;
(ii) concentration in sources and application of funds;
(iii) intra-group cash flows;
(iv) claims and obligations arising from off-balance sheet activities;
(v) credit standing and the capacity and certainty of standby funding sources to meet obligations;
(vi) the volatility of assets and liabilities;
(vii) the impact of external and internal disruptions on cash flows and customers;
(viii) impact of adverse trends in market asset quality on future cash flows; and
(ix) the impact of diminished market confidence in the bank.

5.4 Liquidity in Individual Currencies

5.4.1 Each bank is required to establish a policy on managing their liquidity risk in different currencies. All banks must have a measurement, monitoring and control system for all the currencies in which it does business.

5.4.2 As a minimum, banks are required to set and review monthly, internal limits for the individual foreign currencies in which it has activities. These internal limits must be set below Reserve Bank limits.[4]

5.5 Contingency Planning

5.5.1 Each bank is required to formulate a realistic and clear contingency plan for fast and decisive action. A contingency plan must outline the scenarios within which such plans may be activated.

5.5.2 A strategy for dealing with a crisis should include as its major components the following:

(i) early warning signals that will be used as a sign of approaching crisis;
(ii) procedures to ensure timely and uninterrupted information flows;
(iii) a clear division of responsibility and accountability must be made to ensure personnel and management understand their role in the event of a crisis;
(iv) a strategy for altering asset and liability behaviour during a crisis;
(v) the prioritisation and identification of sources of funds into primary and secondary sources;
(vi) identification of the amounts of funds that can be sourced in the event of a crisis;
(vii) the maintenance and classification of customer relationships with borrowers, trading, off-balance sheet counterparties and liability-holders; and
(viii) relations with external parties, particularly customers, the media and key market participants.

[4] Limits are as set out in Banking Supervision Policy Statement No. 4, 'Foreign Currency Exposures.'

5.5.3 For Fiji branches of foreign incorporated banks, the contingency plan must describe the extent to which the liquidity of the Fiji operation is supported by the group and the degree of head office commitment to provide liquidity support in the event of a crisis.

5.5.4 Each institution is required to ensure that it's contingency plan remains robust over time and reflects the institution's changing operating circumstances.

6.0 Oversight by Reserve Bank of Fiji

6.1 In addition to ongoing monitoring, the Reserve Bank will conduct on-site examinations of licensed banks to assess each bank's compliance with the requirements of this Notice. In the event of a systemic liquidity crisis, the Reserve Bank will liaise closely with each bank.

6.2 The Reserve Bank may require a problem financial institution to provide liquidity returns and reports to the Reserve Bank on a more frequent basis and more detailed scope than as outlined in this paper. A problem financial institution will be informed of these additional submissions in writing by the Reserve Bank.

6.3 Should a bank fail to comply with the requirements of this Policy, the Reserve Bank will impose such sanctions as specified in Section 15 of the Act.

7.0 Implementation Arrangements

7.1 This Policy Statement applies to all banks licensed under the Act, for financial years ending on or after 1 November 2005.

Attachments:

Schedule: Interpretation
Table: Determination of Liquidity Position
Table: Maturity Mismatch Analysis for Banks

Reserve Bank of Fiji
30 June 2005

SCHEDULE

Interpretation-

(1) Any term or expression used in this Notice that is not defined in this Notice:

- (a) which is defined in the Act, shall, unless the context otherwise requires, have the meaning given to it by the Act;
- (b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements; and
- (c) which is not defined in the Act or in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, be interpreted in accordance with generally accepted accounting practice.

(2) In this Notice, unless the context otherwise requires:

'Act' means the Banking Act 1995 unless otherwise specified.

'Reserve Bank' means the Reserve Bank of Fiji.

'Bank' means a bank with the meaning given to it in the Banking Act 1995.

'Cash flows' refer to an analysis (usually the variance) of the cash inflows and cash outflows of the bank for a given time-band.

'Liquid assets' are those assets of the bank that can be converted to cash at no or minimal loss to the bank in principal and/or interest, eg. Treasury Bills, Reserve Bank notes, investments, deposits and advances with bank, monies at call, cash on hand and settlement accounts.

'Loan to adjusted deposit ratios' incorporates the extent to which loans are being financed by medium and long-term debt and by shareholders funds less investments in subsidiaries, affiliates and fixed assets. These additional aspects are included in the denominator of the ratio.

'Loan to deposit ratios' provides a simplified indication of the extent to which a bank is funding illiquid assets by relatively stable liabilities. It provides a measure of the bank's vulnerability to impaired asset quality.

NOTES FOR COMPLETION FOR DETERMINATION OF LIQUIDITY POSITION FOR BANKS AS PER LIQUIDITY RISK MANAGEMENT INDICATORS (Form M- L1)

A. Required Indicators For Calculation of Liquidity Position

1. Loan to Deposit Ratio:

(i) Total Loans, Advances, Leases and Bills Discounted/ Receivable – comprises total loans on demand and other loans. Total Loans & Advances are taken from A.5 of RBF Form M-1. Leases to be included from Line A.6 of RBF Form M-1. Bills Discounted/Receivable to be included from Line A.7 of RBF Form M-1. Components defined as in Notes for Completion of RBF Form M-1. (Includes Fiji dollar equivalent of foreign currency leases, foreign currency bills discounted/receivable and foreign currency loans.)

(ii) Total Deposits - the sum of demand deposits, savings deposits, term deposits and negotiable instruments of deposit. Corresponding to Section L.4 of RBF Form M-1. (Includes deposits in Fiji dollar equivalent of deposits denominated in foreign currency.)

Ratio: $\dfrac{\textbf{Total Loans, Advances, Leases and Bills}}{\textbf{Total Deposits}}$ **X 100 = ____%**

2. Loan to Adjusted Deposit Ratio:

(i) Total Loans, Advances and Leases as defined in 1 above.

(ii) Adjusted Denominator as computed in L1 below.

Ratio: $\dfrac{\textbf{Total Loans, Advances, Leases and Bills}}{\textbf{L1}}$ **X 100 = ___%**

L1 = Total Deposits + Borrowings + [Reserves – (Investment in Subsidiaries + Investment in Fixed Assets)] + Issues of Medium and Long Term Debt + Debentures

3. Liquid Assets to Total Deposits Ratio

(i) Liquid Assets – comprises cash on hand, balances with Reserve Bank of Fiji, balances due from banks in Fiji, money at call, investments, treasury bills and Reserve Bank notes. Components defined as in the Notes for Completion of RBF Form M-1.

(ii) Total Deposits – as defined in 1 above.

Ratio: $\dfrac{\textbf{Liquid Assets}}{\textbf{Total Deposits}}$ **X 100 = ____________________%**

4. Liquid Assets to Total Assets Ratio

(i) Liquid Assets – as defined in 1 above.

(ii) Total Assets – Comprises cash on hand, balances due, money at call, loans and advances, lease finance, bills discounted/receivable, investments, customers liability for acceptances outstanding (contra), net local interbranch transactions, credit institution premises, furniture, fixtures and equipment, real and other properties owned and acquired and other assets. Corresponding to A.14 of RBF Form M-1.

Ratio: $\dfrac{\textbf{Liquid Assets}}{\textbf{Total Assets}}$ **X 100 = ____________________%**

B. Other Ratios For Calculation of Liquidity Position

Licensed banks must provide calculations, ratios, and assumptions used in the calculation of such ratios, if additional ratios are used in the determination of a credit institution's liquidity position. If these ratios, assumptions and calculations are provided in the most recent Liquidity Risk Management Policy of the bank submitted to the Reserve Bank, the institution may only provide in this section, the appropriate values.

DETERMINATION OF LIQUIDITY POSITION AS PER LIQUIDITY RISK MANAGEMENT INDICATORS

RESERVE BANK OF FIJI

Form M- L1

CONFIDENTIAL

____
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____
____
____
____
(Name and Address of Reporting Bank)

As at _____________, 20______

Deadline: Monthly, ten working days from end of each month.

I declare that the figures set forth are obtained from the books of the Bank and that to the best of my knowledge and belief they are correct.

____
[Signature of Authorised Officer]

____
[Name and Designation]

Stamp

____
[Date]

Person to contact on queries: __________________________

DETERMINATION OF LIQUIDITY POSITION AS PER LIQUIDITY RISK MANAGEMENT INDICATORS

A. Required Ratios For Calculation of Liquidity Position

Ratio	Numerator F$ (000)	Denominator F$ (000)	Percentage	Previous Month Percentage
1. Loan to Deposit Ratio				
2. Loan to Adjusted Deposit Ratio				
3. Liquid Assets to Total Deposit Ratio				
4. Liquid Assets to Total Assets Ratio				

B. Other Ratios Used By the Institution

Ratio	Numerator F$ (000)	Denominator F$ (000)	Percentage	Previous Month Percentage
1.				
2.				
3.				
4.				
5.				

NOTES FOR COMPLETION FOR PROPOSED MATURITY MISMATCH LADDER FOR BANKS

The maturity mismatch ladder captures information on the expected liquidity shortfalls and excesses that a bank, will expect to have over the short and medium term. All licensed banks are to complete the maturity mismatch ladder on a monthly basis.

The maturity mismatch ladder shows the net future cash flows of the institution's Fiji operations in various time-bands. The time frame for a maturity mismatch ladder should commence from the next day using intervals determined by management. The net positions in each time-band accumulate to form a net overall mismatch position.

The Reserve Bank will inspect the maturity mismatch ladders in the course of on-site examination and will pay particular attention to the net cumulative mismatches being run by institutions. In the event that the institution uses different intervals or time-bands, it should provide adequate justification in its in-house liquidity policy.

A bank must prepare liquidity reports on scenario analysis conducted under maturity mismatch ladders and provide this to the Reserve Bank at each quarter end.

1) Assets - as defined for the RBF Form M-1. Assumptions utilised in the computation and allocation of assets into various time-bands must be documented in the institution's in-house liquidity policy.

2) Liabilities – components are the same as that defined in RBF Form M-1. Assumptions utilised in the computation and allocation of liabilities in maturity time-bands must be documented in the institution's in-house liquidity policy.

Assets and Liabilities are to be classed into their remaining time to maturity at the date of completion of the table below.

3) Net Mismatch – the difference between assets and liabilities maturing within a time-band.

4) Net Cumulative Mismatch – the accumulated net mismatch over progressive time-bands, as at a particular interval.

5) Net Overall Mismatch Position – the sum of the Net Mismatch Position in each time-band.

ANALYSIS OF ASSETS AND LIABILITIES BY RESIDUAL MATURITY INTO TIME-BANDS FOR BANKS

Month:__________

Remaining Term to Maturity	**Assets** ($F 000)	**Liabilities** ($F 000)	**Net Mismatch** ($F 000)	**Net Cumulative Mismatch** ($F 000)
Less than 1 month				
1 month less than 3 months				
3 months less than 6 months				
6 months less than 12 months				
1 year less than 2 years				
2 years less than 3 years				
3 years less than 4 years				
4 years less than 5 years				
5 years and over				
Total				
			Net Overall Mismatch Position	

Approved:_________ **Date:_______**