

Summary

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“Quantifying Income-Related Liquidity Risk by Liquidity Gap Analysis”

This article introduces the liquidity gap analysis as a comprehensive instrument for the quantification of structural liquidity risks at banks. It is demonstrated how to quantify the cash-flow-related liquidity risk by applying a Monte-Carlo-Simulation to the risk factors of a bank's cash flows. Furthermore, the liquidity gap analysis can also be utilised to determine the income-related liquidity risk, which is of importance in case of a profitability-oriented risk management. Here, the liquidity balancing method becomes important. It cannot only quantify the income related liquidity risk caused by the volatility of credit spreads but also the income-related liquidity risk, which is caused by the cash-flow-related liquidity risk.