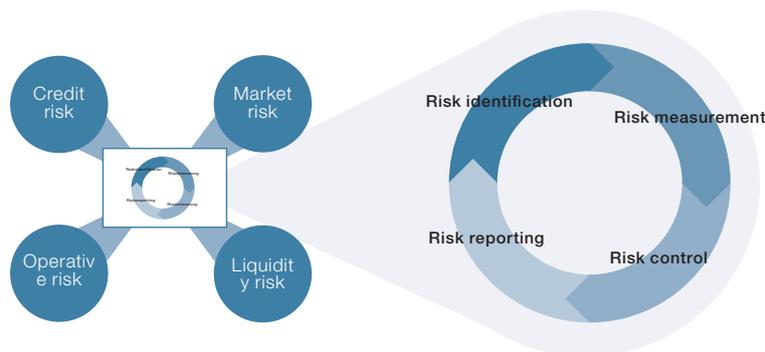


## RISK REPORTING AND RISK INDICATORS

### Status Quo

Every bank is exposed to a raft of different risks in operative business, and risk avoidance is not always possible or purposeful for the pursuit of its activities. A profit-oriented risk policy must include extensive precautions for risk management in the form of an adequate risk management framework. The opportunities and risks of all transactions must be accepted and controlled consciously.



### Aims of risk management

The risk management framework must guarantee that risks are only accepted if they are compatible with the bank's risk appetite and if they offer an ideally structured risk/return ratio. Another aim of risk management is to ensure the continued existence of the bank even in extreme situations, for instance by performing stress tests. The Board of Directors is responsible for risk management, i.e. the Risk Board as supreme body within risk control.

Risk management has been a particularly relevant topics for the supervisory authorities as well, especially since the financial crisis. Since then, a continually expanding body of sweeping supervisory requirements has been introduced, including MaRisk, BCBS 239 or FRTB.

Here, a sharp rise in requirements has precipitated spiralling complexity, which can only be managed in a highly competitive market environment through the application of efficient processes.

### Risk reporting

Meaningful and comprehensible risk reporting to internal and external stakeholders is an essential part of risk management. To generate effective control impetus, all relevant risk indicators must be communicated to the responsible persons in a manner and level of detail that suits their position. BCBS 239 defines the data quality of risk indicators as an integral element of risk reporting for the first time.

# RISK REPORTING AND RISK INDICATORS

## Aggregate functions

### „Core risk indicators“ as the basis for risk reportings

Risk reporting (especially the general risk report) focuses on prioritised indicators for risk control, which are known as the key risk indicators („KRI“). The KRIs are selected and specified in close cooperation with the bank's risk control bodies with due consideration of the supervisory requirements and best practice experience..

#### Examples of KRIs

Borrower's default risk	<ul style="list-style-type: none"><li>• Exposure (according to various dimensions)</li><li>• Expected Credit Loss</li></ul>
Market risk	<ul style="list-style-type: none"><li>• VaR</li><li>• CVA/ DVA</li></ul>
Liquidity Risk	<ul style="list-style-type: none"><li>• LCR</li><li>• NSFR</li></ul>

Established as a standard for many years, the most important performance indicator for market risk is the value at risk („VaR“); it will be replaced by the expected shortfall („ES“) in 2019 upon introduction of the FRTB. The risk indicators CVA and DVA are used to quantify the effect of the counterparty credit risk on the value of an asset.

Probability of default („PD“), exposure at default („EAD“) and loss given default („LGD“) are included as essential parameters in the assessment of a borrower's default risk. Introduction of the new accounting standard IFRS9 has specifically defined extended requirements for determining the calculation parameters. Macroeconomic factors must be used to stress these parameters in order to identify the expected credit loss („ECL“) required by the new IFRS9 standard.

Basel III requires regular supervisory reporting of the prescribed liquidity coverage ratio („LCR“) and net stable funding ratio („NSFR“) KRIs in order to control the short- and long-term liquidity risk.

## Our services and your benefits

At Geissbühler Weber Consulting AG, we offer you proven strategies and best practice knowledge to execute suitable risk reporting and to select and specify the KRI that are tailored ideally to your requirements for risk management.

## Thank you for contacting us



**CHRISTIAN IRRGANG**  
Partner  
T. +49 69 66 77 899 11  
christian.irrgang@gwp-consulting.de



**MIRKO SEHNERT**  
Director  
T. +49 69 66 77 899 33  
mirko.sehnert@gwp-consulting.de