# Typical failures in bank risk management

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## Agenda

- **Typical determinants of bank distress**
- **Risk typology**
- **Is (was) this time different?**
- **What’s new?**

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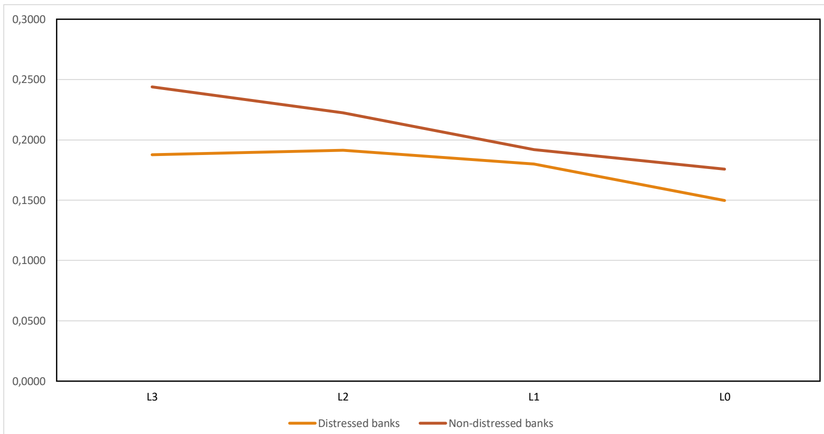
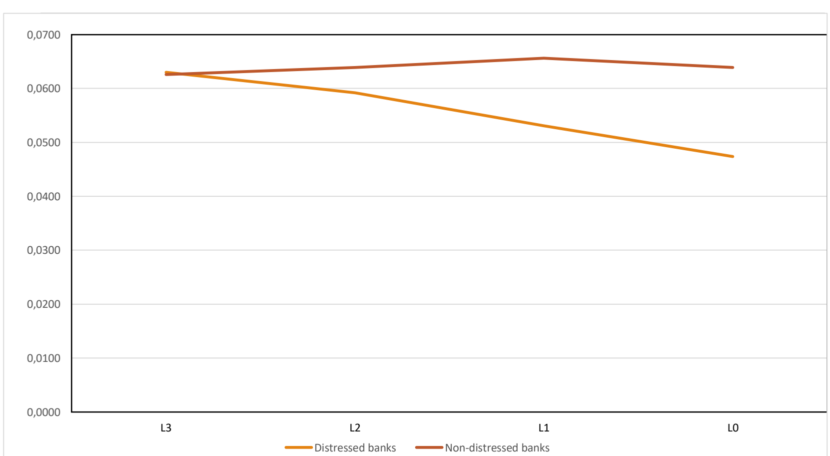
# Distressed vs.non-distressed banks

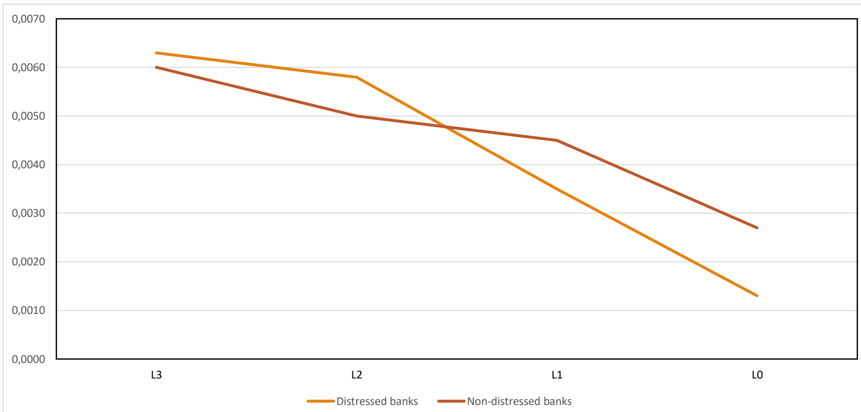
# Liquidity - liquid assets to funding




# Capital adequacy – equity to assets



# Profitability - ROA

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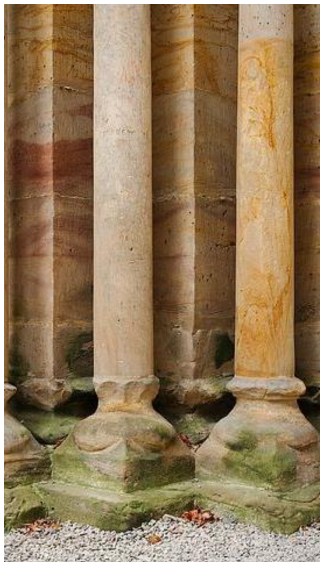

# Basel capital regulations – pillar I

- Credit risk
- Market risk
- Operational risk

# Basel capital regulations – pillar II – other material risks

- Interest rate risk (in the banking book)
- Liquidity risk (+ separate regulations on LCR and NSFR)
- Excessive leverage
- Credit concentration risk
- Reputational risk
- Model risk
- …


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## Credit risk (1)

- Excessive risk apetite (for any type of risk)
- Too liberal credit policies (cut-off rates/ratings)
- Too ambitious targets in sales plans
- Bad pricing policy -> too low margins
- „Connected" lending
- NPL vs. NPE

## Credit risk (2)

- **PD - probability of default**

**Actual PDs higher than historical (expected)**

- **LGD - loss given default**

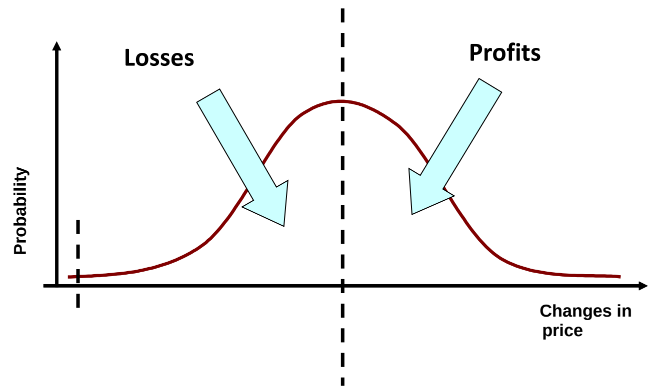
**Actual LGDs higher than historical (expected)**

- **CVaR – credit value at risk**
**How to estimate CVaR close to reality?**

## Market risk (1)

- **VaR – risk underestimaed due to too many tail events**
- **sVaR (stressed VaR)**
- **cVaR (conditional VaR) = expected shortfall (ES)**

# Market risk (2)




# Operational risk

- Frauds (internal and external)
- Improper internal processes
- Misseling

# Pillar II failures

**Improper selection of material risks**

**Underestimation of risk**

**Too relaxed stress tests**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## Challenges for risk management

**Cyber-security**

**Exposures to shadow banking**

**Robots**

**Reputational risk**

# Thank you for your attention!

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