Categories

The risk categories in detail

The risks to which VP Bank is exposed in the conduct of its business operations are allocated to the three risk groups of financial risks, operational risks and business risks (including strategy risks). Financial risks are further divided into market risks, liquidity risks and credit risks.

Each individual type of risk must be identified, appropriately controlled and monitored.

Otherwise, not only can significant financial losses arise, but damage to reputation may be incurred which may be accompanied by a loss of customers and employees, a decline in the value of the Bank's shares or even attract severe restrictions on business activities imposed by the financial-market supervisory authorities.

VP Bank thus does not consider reputational risk to be a distinct risk category, but as a danger which results from the occurrence of individual types of risk or a combination thereof. The management of reputational risks is incumbent on Group Executive Management.

Risk categories

Market risks

Market risk comprises the risk of a negative change in value of the overall Bank's portfolio as a result of unexpected changes in market prices (interest rates, currencies, share prices and credit spreads) or price-influencing parameters such as volatility.

Market risks are incurred with positions in debt securities, equity paper (the majority of which are exchangequoted), foreign

currencies, derivatives within the scope of asset & liability management, precious metals and precious-metal options as well as in the inter-bank business and business for customers. In computing the capital charges to support market risks in accordance with Basel II, VP Bank applies the standardized approach.

Liquidity risks

Liquidity risk lies in the danger that current and future payment obligations cannot be met on the due date or to the full extent. Without sufficient liquidity, VP Bank would be obligated to continually refinance itself on the market (short-term liquidity and refinancing risk) or to liquidate financial investments on the market at a discount (market liquidity risk) in order to meet its payment obligations.

Group Treasury is responsible for the active management of liquidity risks as well as the risk management of limits with banks and brokers. The unit Bank Liquidity Management ensures that VP Bank at all times possesses sufficient liquidity to fulfill its payment obligations as and when they fall due and in full. In addition, the compliance with liquidity norms imposed under supervisory law as well as the limitation of counterparty and credit risks of all exposures of VP Bank Group to banks and brokers figure amongst the core duties of this unit.

Credit risks

Credit risk is the danger that losses will be incurred as a result of non-fulfillment of the contractual obligations of a counterparty (default risk). Concentrations of credit risks arise primarily whenever customers are active in similar industry segments or are resident in the same region.

Default risks may accrue to the bank from all transactions for which payment obligations of third parties in favor of the bank arise or can arise: from the credit and money-market business, the management of own investments in securities, trading activities as well as from securities lending.

In computing the capital charges to support credit risks in accordance with Basel II, VP Bank Group applies the standardized approach.

Operational risks

Operational risks represent the danger of incurring losses arising as a result of the inappropriateness or failure of internal procedures, staff or systems or as a result of external events. Included therein are process, technology and employee risks, external risks as well as risks resulting from violations of due-diligence obligations ("compliance risks").

In computing the capital charges to support operational risks in accordance with Basel II, VP Bank applies the basic indicator approach.

Business risks

VP Bank classifies as business risks those risks which are currently regarded by the Group Executive Management and Board of Directors as being highly charged. Risks that are deemed to be highly charged are those risks that could jeopardize on an ongoing

basis the achievement of the long-term corporate goals as a result of the currently prevailing external and internal risk factors.

The assessment of business risks is subject to continual review, and they remain valid only until such time as the management bodies undertake a further revalidation and prioritization thereof. VP Bank thus does not consider business risks to be an autonomous risk category.

Those business risks which the Board of Directors and Group Executive Management have identified as important are reflected in the two risk groups financial and operational risks.

This text is limited to a brief overview of the risk categories. The full text can be found in our PDF excerpt «Risk Management within VP Bank Group».

More information

- Risk Management within VP Bank Group (Excerpt from the Financial Report) (PDF, 232 KB)