RISK MEASUREMENT PROCESS
Measuring and managing risks related to credit guarantees and on-lending
Risk measurement involves several steps:

1. Defining characteristics
   - Understanding key characteristics influencing approach to risk analysis

2. Risk analysis
   - Analyzing specific risk drivers

3. Risk quantification
   - Translating risk analysis into quantifiable measures

4. Application in risk management
   - Using risk measures to inform risk management tools

Source: World Bank Treasury
Defining characteristics of guarantee portfolio and risk exposure is first step

1. Defining characteristics
2. Risk analysis
3. Risk quantification
4. Application in risk management

A. Characteristics of guarantee portfolio
B. Clear definition of risk exposure
C. Resources and capacity
D. Data availability

Source: World Bank Treasury
Key risk factors can be analyzed using different approaches

1. Defining characteristics
2. Risk analysis
3. Risk quantification
4. Application in risk management

- Analyzing key risk factors of guaranteed entity using various methodologies
  - Credit scoring
  - Statistical models
  - Structural models
  - Simulating financial performance

Source: World Bank Treasury
Risk quantification can target various measures

1. Defining characteristics

2. Risk analysis

3. Risk quantification

4. Application in risk management

- Various target measures, such as
  - Expected loss
  - Market value
  - Unexpected loss
  - Maximum probable exposure

- 2 primary approaches
  - Price differentials
  - Estimation of default probabilities

Source: World Bank Treasury
Several risk management tools can be informed by quantified risk measures

1. Defining characteristics
2. Risk analysis
3. Risk quantification
4. Application in risk management

Risk management tools:

A. Setting guarantee fee
B. Setting guarantee limit
C. Partial guarantee coverage
D. Budgeting
E. Contingency reserve account
F. Risk reporting and monitoring

Source: World Bank Treasury
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