Risk of Bank

Taking risks can almost be said to be the business of bank management. Financial institutions that are run on the principle of avoiding all risks will be stagnant and will not adequately service the legitimate credit needs of the community. On the other hand, a bank that takes excessive risks is likely to run into difficulty. Banking risks can be defined and classified in many ways and it is possible to draw up a long list of the types of risks to which banks are exposed. In this chapter we will examine six main types of risk:

1- **Credit risk is the risk that a counterparty to a financial transaction ('the borrower') will fail to comply with its obligations to service debt**
2- **Liquidity risk covers all risks that are associated with a bank finding itself unable to meet its commitments on time, or only being able to do so by recourse to emergency borrowing.**
3- **Interest rate risk relates to risk of loss incurred due to changes in market rates, for example, through reduced interest margins on outstanding loans or reduction in the capital values of marketable assets.**
4- **Market risk relates to risk of loss associated with adverse deviations in the value of the trading portfolio.**
5- **Country risk is associated with the risks of incurring financial losses resulting from the inability and/or unwillingness of borrowers within a country to meet their obligations.**
6- **Solvency risk relates to the risk of having insufficient capital to cover losses generated by all types of risks.**