

Everyone's Smart University

Assignment 1 (Spring 2021)

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SECTION
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The National Commercial Bank is one of the biggest banks in the medal east. And their face a lot of risks same as other financial organization.

What Type of Risk Is Being Considered?

Commercial banks are in the risk business. In the process of providing financial services, they assume various kinds of financial risks.

Over the last years our understanding of the place of commercial banks within the financial sector has improved substantially.

What Kinds Of Risks Are Being Absorbed?

The risks contained in the bank's principal activities, those involving its own balance sheet and its basic business of lending and borrowing, are not all borne by the bank itself.

In many instances the bank will eliminate or mitigate the financial risk associated with a transaction by proper business practices.

In others, it will shift the risk to other parties through a combination of pricing and product design.

Liquidity risk: the best described as the risk of a funding crisis.

While some would include the need to plan for growth and unexpected expansion of credit, the risk here is seen more correctly as the potential for a funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis.

In any case, risk management here centers on liquidity facilities and portfolio structure. Liquidity risk leads the bank to recognize liquidity itself as an asset, and portfolio design in the face of illiquidity concerns as a challenge.

1. Why is this risk?

-The risk is because the bank will not be able to meet its obligations when they are due. Due to its inability to provide financing.

2. What type of risk is it?

-Control risk

3. What is the likelihood of the risk? How great is the impact?

-Low magnitude ... impact is low.

4. What strategy or policy does the company use to manage the risk?

-To have more cash in the treasure.

Operational risk: is associated with the problems of accurately processing, settling, and taking or making delivery on trades in exchange for cash.

It also arises in record keeping, processing system failures

And compliance with various regulations. As such, individual operating problems are small probability events for well-run organizations but they expose a firm to outcomes that may be quite costly.

1. Why is this risk?

-Because it is the risk of losses that arise from the inefficiency or failure of internal processes, people and systems.

2. What type of risk is it?

-Compliance risk

3. What is the likelihood of the risk? How great is the impact?

-Low magnitude ... impact is low.

4. What strategy or policy does the company use to manage the risk?

-They should have a back-up system in case of any failure.

Legal risks: are endemic in financial contracting and are separate from the legal ramifications of credit, counterparty, and operational risks. New statutes, tax legislation, court opinions and regulations can put formerly well-established transactions into contention even when all parties have previously performed adequately and are fully able to perform in the future.

1. Why is this risk?

-Because if there is any change of the rules and regulations in the country may affect the operations of the bank.

2. What type of risk is it?

-Hazard risk ... impact is high.

3. What is the likelihood of the risk? How great is the impact?

-High magnitude

4. What strategy or policy does the company use to manage the risk?

-The bank should have written rules and regulations determine how to act in such cases.

Credit risk: arises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. This can affect the lender holding the loan contract, as well as other lenders to the creditor.

1. Why is this risk?

-There are defaults and loans represent the largest of these types and which have the highest credit risk.

2. What type of risk is it?

-Opportunity risk

3. What is the likelihood of the risk? How great is the impact?

-High magnitude ... impact is high.

4. What strategy or policy does the company use to manage the risk?

-The bank should have more guarantees for the loaners.