

Banking Risks – Liquidity Risk

- Liquidity Risk:
- “The inability of a bank to fulfill its obligations when they became due and/or the inability of a bank to perform its daily banking operations after fulfilling its obligations due to lack of cash or liquid assets”

Types of Liquidity Risks

- **1. Funding Risk**
- **2. Time Risk**
- **3. Call Risk**
- **4. Excessive Asset Growth Risk**

Types of Liquidity Risks

- Liquidity Risks:
- **1. Funding Risk** – FR is related with the Balance Sheet Liabilities of the bank. FR arises when there is unexpected early withdrawal of deposits before the maturity date (due date) or unexpected non-renewal of deposits at the maturity date.

Types of Liquidity Risks

- Liquidity Risks:
- **2. Time Risk** - TR is related with the Balance Sheet Assets of the bank. TR arises when there is an unexpected non-payment of loan principal or interest amount (loan default) at the due date (maturity date) or when there is unexpected early payment of loan principal amount before its maturity date (closing the loan before the maturity date)

Types of Liquidity Risks

- Liquidity Risks:
- **3. Call Risk** – CR is related with the Off-Balance Sheet items "Contingent Liabilities & Commitments" of the bank. CR arises when there is an unexpected indemnification of a Contingent Liability or Commitment. The bank is force to make payment on behalf of its customer because of the guarantee given by the bank.

Types of Liquidity Risks

- Liquidity Risks:
- 4. **Excessive Asset Growth Risk** – EAG risk arises when a bank wants to grow its assets; especially grow its Loan Portfolio with such a high speed that the treasury department of the bank can not find sufficient funds with reasonable terms & conditions to give these loans.