



Everyone's Smart University

Assignment 1 (Spring 2021)

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Section

**Master of Project
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Project Risk Management

Instructions:

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1st Risk: Compliance Risks

- A1. Because failing to comply with the regulatory requirements that is introduced by SAMA can have a significant impact on bank's reputation and substantial consequences that could result in revoking the "banking license" and/or imposing penalties.
- A2. It falls under compliance risk category, as the risks are associated with the regulations, laws, legislation, and rules.
- A3. Due to the fact that banking industry is one of the highly regulated industries, so NCB pays close attention to compliance with regulations and have departments that monitor the non-compliance with regulations to manage the risk. That being said, the likelihood of the risk is very low. On other hand the impact, would be a case-by-case basis based on the consequences of the violated regulation, it can go from low to high from imposing penalties within the capacity of the bank to imposing penalties that are above the capacity of the bank and/or revoking the "banking license" respectively.
- A4. In 2019 NCB failed to comply with various of SAMA's regulations, which costed NCB a total of SAR 112,264,000. Thus, to avoid compliance risks, NCB Risk Management have put control measures in place by creating a new group called "Risk Group" to be an independence group as well as by implementing three main defense lines. The reason behind this control measures is that all the business units collaborate with the Internal Audit Division and Risk Group to effectively identify, monitor, and manage the regulatory requirements to ensure the compliance with any new/amended regulations prior external audit (i.e. SAMA's audit) took place, which eventually minimizes the likelihood of the compliance risk to the minimum.

2nd Risk: Credit Risks

- A1. This risk can be defined as the financial losses resulted from a borrower's failure to meet their contractual obligations by failing to repay the loaned amount, which impacts bank liquidity.
- A2. It falls under opportunity risks, due to the fact that NCB do add an interest rates that vary from bank to another to achieve a positive return that can be represented by increasing of the liquidity.
- A3. Even though the intention is to achieve a positive return, yet failure to repay the loaned amount puts NCB into a credit risk. So, the likelihood of the risk is high, as NCB can't be certain if the loaned amount will be repaid or not, while the impact is low, as NCB do assess and manage credit risks against the targeted revenue of the investments to make sure that any losses that might arise from failure to repay the outstanding obligations is covered by the investment portfolio.
- A4. After monitoring and identifying credit risks based on the creditworthiness of each transaction, NCB manages the credit risks by setting a credit limit to match risk level. In addition, NCB obtains collateral for credit facilities by collateralizing financial guarantees provided by other banks, shares, cash deposits and other fixed assets.

3rd Risk: Information Security Risks

- A1. Even though online banking is irreplaceable, in which banks invest significant cost in improving the online banking to encourage customer to use it, yet it is one of the risks **because there is a potential for loss or damage to the data that might affect customer or bank data.**
- A2. Data loss or damage can be caused by failure of procedural, technical, and regulatory measures, which falls under **hazard risk** category, as the impact is on bank's information safety and security.
- A3. The **likelihood can be determined as low**, as NCB Information Security Department implements a comprehensive framework to regulate the requirements, operational procedures, and rules to ensure that the information assets are protected with reducing information security risks. The **impact of the risk would be a case-by-case basis** based on the consequences of the risk, it **can go from low to high** from damaging couple of PCs via a virus that only loses the information of the damaged PC with no access to customer accounts, and the cost for repairing/replacing the PC to damaging Bank's network, which would result in transferring money to external accounts and damaging all information assets respectively.
- A4. To reduce the information security risks. **Apart from the implemented comprehensive framework, NCB also implements an awareness program to everyone deals with bank's information assets such as employees, customers, or contractors that have direct access to the network. In addition, NCB do monitor and control all information security activities in 24/7 basis to identify and take immediate action to mitigate the hazard risk.**

4th Risk: Liquidity Risks

- A1. Because it **fails to meet all payment obligations at the maturity dates, having to make payment at excessive costs.**
- A2. It is an **opportunity risk** because the reason behind the failure of meeting the payment obligations is that NCB used the liquidity in investments to grow the liquidity.
- A3. The **likelihood is low**, due to NCB do maintain a balance between the liquidity and the profitability for operations, which means they maintain enough liquidity. While the **impact is low** as well, as NCB Risk Group monitors all facilities, obligations, and sources of financing along with their cost rates at different targeted tenors to meet its obligations.
- A4. **NCB uses risk tolerance measurement programs to ensure that it can meet its obligations during adverse market conditions, including long periods of asset liquidation at disadvantageous price levels, which will embrace the opportunity risk that eventually increases liquidity levels.**