



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Everyone's Smart University

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Student Name :Asmaa Mohamed Aldhanhani اسم الطالب

Students I.D 2021201156 الرقم الجامعي

Section

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Project Risk Management

Instructions:

Instructor's Name: Eng. Mosaab M. Hamed

National Commercial Bank is the largest financial institution in Saudi Arabia and the biggest bank in the capital of the Arab world. The company provides a varied range of financial products and services, including retail, corporate, investment, Islamic banking, mobile, phone, and online banking. Nowadays. Due to the banks' importance, Overexposure to risk may result in bank failure and loss of millions of customers. So important for the bank to know how to manage risks.

Credit risk

Credit risk is the most significant risk for banks. It occurs when counterparties or borrowers fail to pay their contractual obligation. In which it's considered a compliance risk. For example, when the borrower defaults on delivering a loan's principal or interest payments, Defaults can occur on credit cards, mortgages, and fixed-income securities. Failing to meet obligational.

The likelihood of this risk is medium, and the impact there will be a late return of interest. On the other hand, banks cannot be fully protected from credit risk due to their nature of the business model. They can reduce this risk in several ways.

To lower their risk exposure, they can loan money to people with good credit histories, transact with high-quality counterparties, or own collateral to back up the loans.

Operational Risk

Operational risk can occur due to errors, interruptions, or damages caused by people, systems, or processes. that is considered as Hazard risk. This risk can be low for some simple business operations such as asset management and retail banking and higher operations such as sales and trading. This loss can occur due to human error, including mistakes made during transactions or internal fraud. An example is when sometimes a teller by accident may give an extra \$40 bill to a customer.

On a broad scale, fraud can occur through breaking the bank's cybersecurity. The hacker can steal customer information and money from the bank and blackmail the institutions for additional money. The likelihood of this risk is high, as will the impact. In such a situation, banks lose capital and trust from customers. Damage to the bank's reputation can make it more difficult to attract deposits or business in the future.

To reduce the operational risk, the bank is taking those steps. Managing equipment failure, safeguard information, ensure alternative plans in case of any event failure.

Market Risk

Market risk usually occurs from a bank's activities in capital markets. Due to the unpredictability of commodity prices, markets, credit spreads rates. This type of risk is called opportunity risk. Commodity prices play an important role because a bank may be invested in companies that produce commodities. As the commodity value changes., so does the company's value and the value of the investment. Changes in commodity costs are caused by supply and demand shifts that are often hard to predict. the likelihood of this risk is high, and the impact may affect the bank annual returns in a negative way. So, to decrease market risk, diversification of investments is essential. Other ways banks reduce their investment include hedging their investments with other, inversely related investments.

Liquidity Risk

Liquidity risk refers to a bank's capability to access money to meet funding obligations, which means allowing the bank clients to take out their deposits. The bank's inability to provide cash in a timely manner to clients may result in a snowball effect. This type of risk is called control risk. The impact of this risk will result in the bank's reputation and client confidence in the bank. For example; If bank delays delivering money for a few of their customer for one day, many other depositors may rush to take out their deposits as they lose confidence in the bank. This further lowers the bank's ability to provide funds and leads to a bank run. The likelihood of this risk is medium.

To solve this risk, the bank needs to keep enough liquid assets to survive for some period of time, even without the inflow of outside funds.