

Everyone's Smart University

Assignment 1 (Spring 2021)

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Section

**Master of Project
Management**

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Course Code

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Project Risk Management

Instructions:

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Saudi Aramco

1- Foreign currency exchange rate risk (controlled risk):

- is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

-Saudi Aramco conducts hedging activities by using forward currency contracts to manage its exposure to significant outstanding foreign currency transaction risks. The hedge ratio takes into account variability in potential outcomes, spot exchange rates, as well as interest rates, on a transaction-by-transaction basis that can cover up to 100% of the initial exposure.

-It is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Price risk arises mainly from investments in securities and trading in commodities

- Investments in securities change may result in fair value resulting from the movement of 5% in the prices of listed securities to the change in other comprehensive income before income taxes amounting to SR 412 and \$ 366 SAR as at 31 December 2019 and 2018, respectively.

2- Interest rate risk (controlled risk):

-It is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates

- Saudi Aramco is exposed to interest rate risk from changes in interest rates that affect the fair value or future cash flows of financial instruments, mainly loans issued at variable and fixed rates. Saudi Aramco is also exposed to interest rate risk on cash flows due to the variable rate loans issued which are partly offset by short term deposits and debt securities held at variable interest rates.

-Saudi Aramco is also exposed to interest rate risk on fair value from loans issued at fixed interest rates. Saudi Aramco may enter into interest rate swap agreements as part of its overall strategy to manage interest rate risk on its debt.

3- Credit risk (opportunity risk):

-It is the risk that other parties will not be able to fulfill their contractual financial obligations towards an entity.

- Saudi Aramco is exposed to credit risk with third parties that do not perform or fulfill their obligations, which may result in financial loss. Credit risk arises from exposure to credit risk on trade receivables as well as from cash and cash equivalents, short-term investments, debt

securities designated at FVOCI and derivatives with financial institutions. The maximum exposure to credit risk is the carrying amount of these assets.

- The credit policy limits the amount of credit exposure to any counterparty based on its credit rating and other factors. Likewise, Saudi Aramco's investment policy limits exposure to credit risk arising from investment activities. This policy requires that cash and cash equivalents and short-term investments be invested with a variety of financial institutions that have an acceptable credit rating. Whereas, Saudi Aramco ensures that each party has an acceptable credit quality by relying on quantitative and qualitative measures gathered from internal or external evaluation forms.

-Saudi Aramco applies the simplified methodology permitted by IFRS 9 to create a provision for ECLs for trade receivables. The simplified methodology uses a lifetime expected loss allowance for all trade receivables. These credit losses were previously nominal and the provision for loss of trade receivables was immaterial.

4-Liquidity risk (hazard risk):

-These are the difficulties encountered by an entity when meeting obligations related to financial liabilities.

- The management of liquidity risk in Saudi Aramco includes maintaining adequate amounts of cash and cash equivalents and ensuring the availability of additional financing through credit facilities. The management also monitors and estimates Saudi Aramco's liquidity requirements based on current and non-current cash flow projections.

- Saudi Aramco invests the surplus cash in current accounts, time deposits, money market deposits, government bond repurchase agreements, and traded securities, by selecting financial instruments with appropriate maturities or liquidity sufficient to meet expected cash flow requirements. While Saudi Aramco prioritizes safety and liquidity over the return account.

Saudi Aramco seeks to maintain a balanced capital structure, which consists of loans and equity, to support its capital investment plans and maintain sustainable and growing dividends. Maintaining adequate financial flexibility is of strategic importance to mitigate industrial volatility, while it also enables the pursuit of major and non-core investment opportunities. The loans or dividends will result in a revision of Saudi Aramco's capital structure.