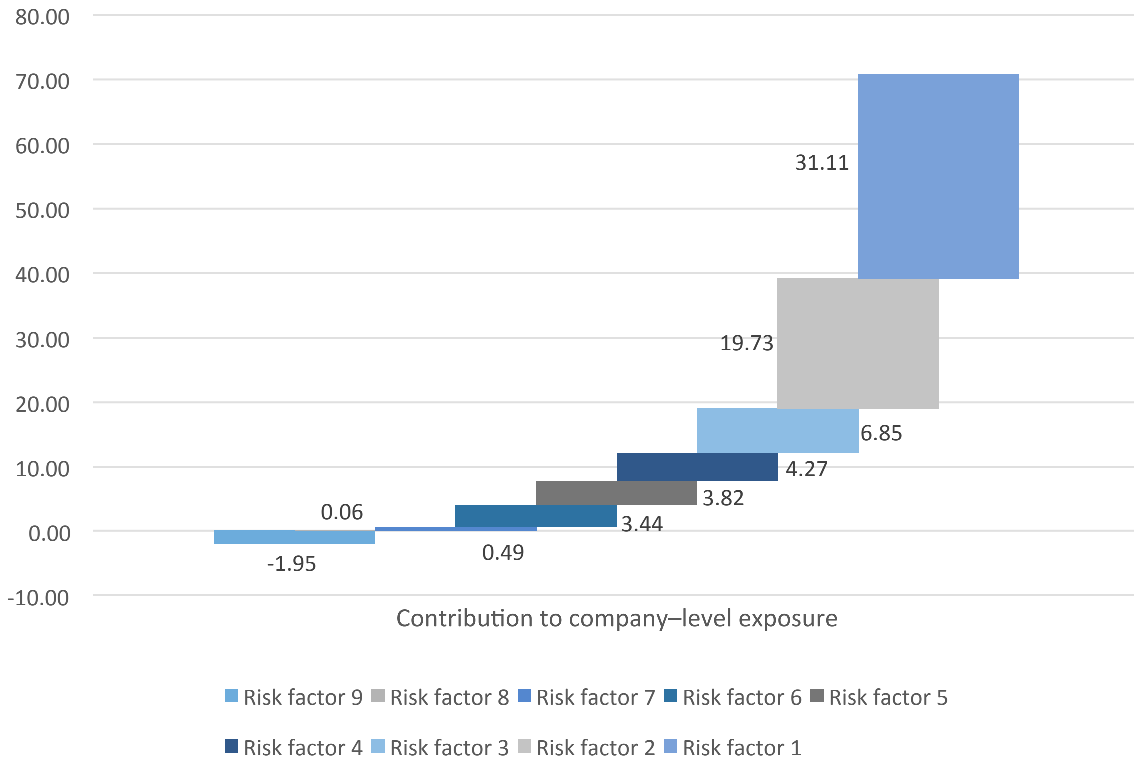
INCERTUS

EXAMPLE COMPANY
SUMMARY OF RISK ANALYSIS RESULTS

COMPANY RISK OVERVIEW



RISK FACTOR 1 – € 31.11 M

The major risk facing the company is XYZ arising mostly from X. The most important driving factor of this are the lengthy XYZ and the major concentration of XYZ to few clients which decreases the diversification benefits achieved. (Page 5)

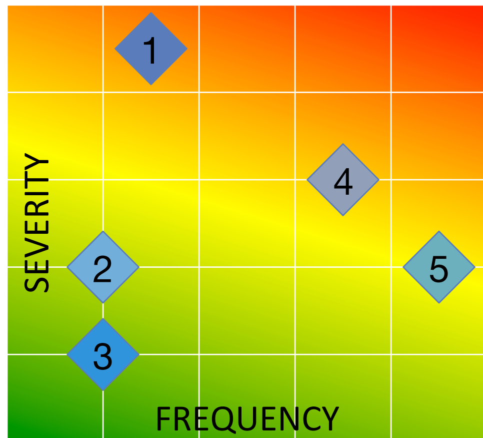
RISK FACTOR 2 – € 19.73 M

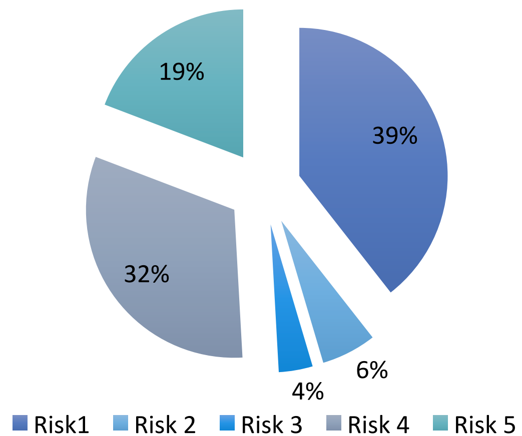
Due to the large amount of unprotected XYZ the company is exposed to changes in XYZ and ZYX. While there is plans to decrease the exposure by using YZX, current risks remains significant. (Page 8)

RISK FACTOR 3 – € 6.85 M

Since company has significant portion of its output tied to fixed price and quantity contracts, movements in XYZ price can cause significant adverse impact to the company profits. (Page 10)

EXAMPLE PRODUCT LINE: KEY OPERATIONAL RISKS





RISK 1 - € 224 000

While YXZ is expected to occur relatively infrequently, which is also supported by past experience and peer review, the severe impact of it makes it the leading threat concerning this product line. (Page 14)

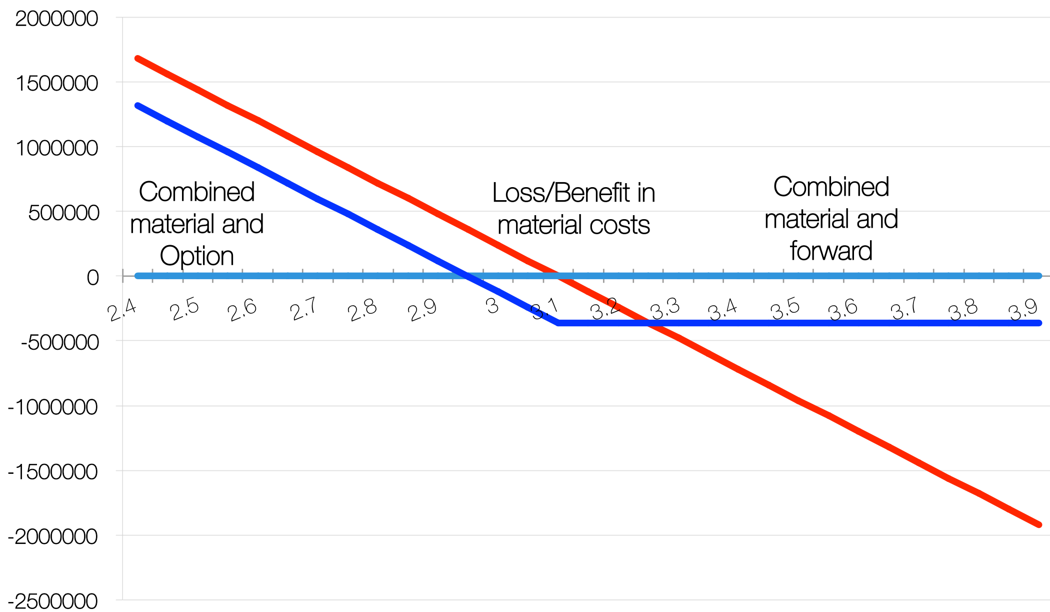
RISK 2 - € 34 000

Despite all the initial concerns, it proved out that the isolated nature of ZXY limits its impact, when looking at the organization as a whole. Note that this was partly due to already effective controls that were in place. (Page 16)

RISK 3 - € 21 000

As it was initially apparent from the maximum feasible loss, XYZ does not constitute a major monetary threat for the company. (Page 17)

EXAMPLE : HEDGING WITH VANILLA INSTRUMENTS



SENSITIVITY

Based on the quantity of XYZ needed per product we have measured the sensitivity of overall material costs to movements in price of XYZ. All in all the first 1% increase in XYZ means a 0.75% increase in material costs at current prices of inputs. Based on the sales structure, these costs are also not passed on to customers in timely manner thus creating a clear exposure on P&L.

HEDGING WITH BASIC INSTRUMENTS

Based on this and monthly material costs we can set up a hedging scheme either by using a forward/futures contracts or by purchasing a call option. The picture above depicts the simplified situation that the company would buy all of its XYZ for January of 2015 on 31 December when both the options and futures expires. The data for the arrangement is presented on the accompanying excel sheet. The transaction and other cost are ignored for this example but will be accounted for in case CXY decides to implement any of the proposed hedging schemes.