



Managing Financial Risk

*Presented by:
Sharon Grewal, Vice President, Risk Services*

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FOREIGN
EXCHANGE
INTEREST RATES
EQUITIES

ENERGY
LIVESTOCK
GRAINS
METALS
PULP & PAPER

The Risk Services group primarily assists clients with the strategic management of **financial and commodity market risks**, and any resulting secondary risks such as operational, credit, or liquidity risks.

POTENTIAL
REPLACEMENT
COST BASED ON
MARKET PRICE
MOVES

SUFFICIENT CASH
FLOW TO MEET
COMMITMENTS

PEOPLE
PROCESSES
TECHNOLOGY

The presentation today will answer the following questions:

- **What is risk?**
- **What is financial risk?**
- **How does financial risk impact growing companies?**
- **Why manage risk?**
- **How should risk be managed?**
- **What is required for “effective” risk management?**

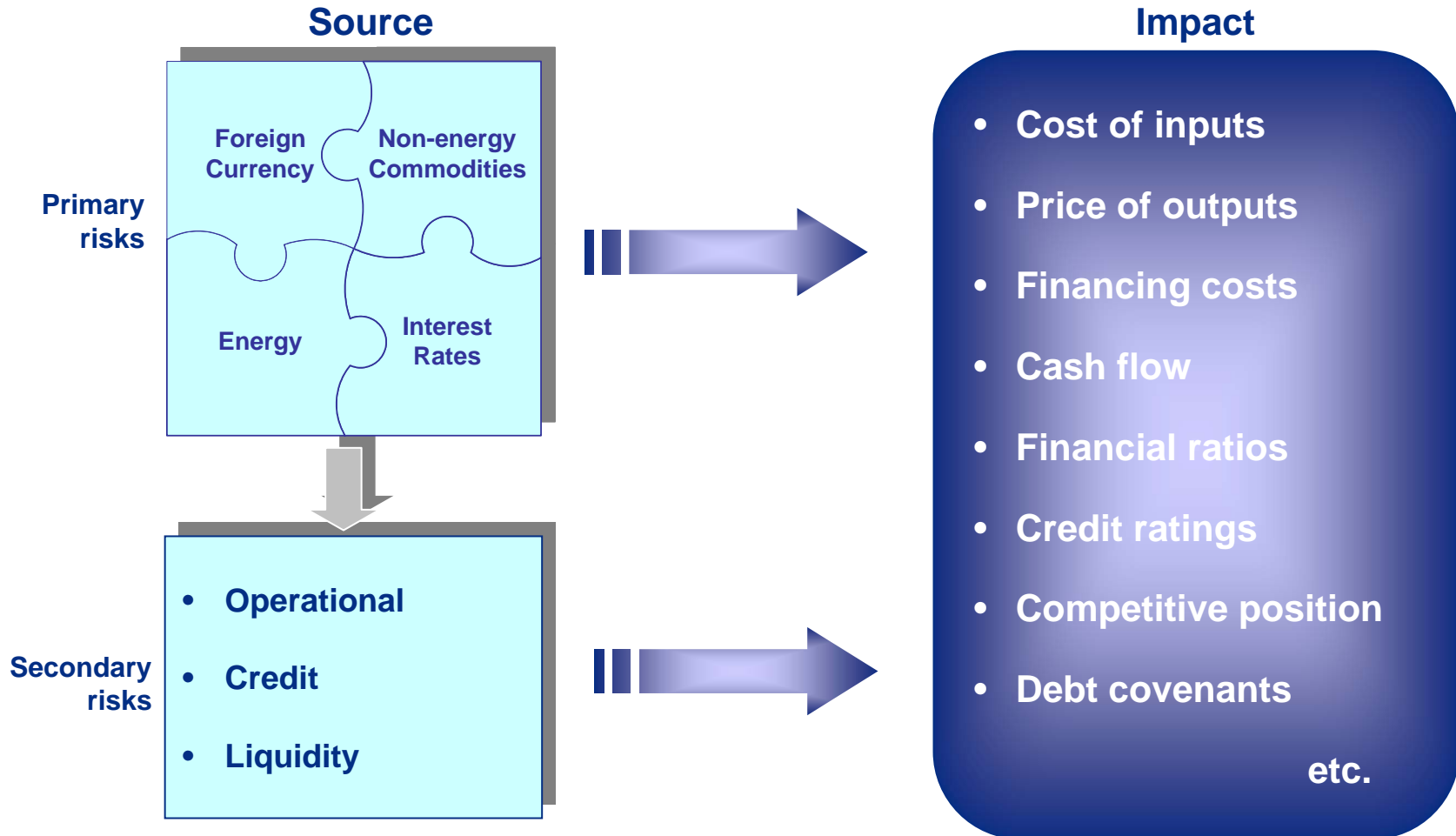
“To take risk is the essence of economic activity....the main goal must be to enable companies to take the right risk...by providing knowledge and understanding of the alternatives”

Peter Drucker, 1974

Risk is anything that gets in the way of an organization achieving its strategic objectives

For example.....

- **missed opportunity**
- **excessive caution**
- **not knowing what your risk is or where it lies**
- **erosion of competitive advantage/position**
- **lower than expected earning/profitability**
- **decrease in cash**



Financial markets risk is inherent in almost all businesses

Financial markets risk is not core to most businesses

Is risk necessarily bad???

Answer:

Not if managed to achieve corporate objectives within the risk appetite of the company.

There is a wide spectrum of practices related to the management of risk. They should be judged on the basis of their ability to achieve stated objectives.

Risk Management

Risk Management is the process that an organization implements to prudently manage the most significant risks arising in its business in order to be more certain of the achievement of its strategic objectives.

**“The best throw of the dice is to throw them away
..... Gambling is no substitute for business strategy”**



Source: Globe & Mail, November 23, 2001 - Jamie Sokalsky PERSONAL VIEW

Risk Management is a Business Strategy.

The challenges faced by growing companies are compounded by movements in the Financial Markets.

“Dollar seen hitting 90 cents in a few years”

The Globe and Mail, January 7, 2004

“Interest rate cut forecast as loonie heads to 80 cents US”

National Post, January 8, 2004

“2003 crude prices hit 20-year high”

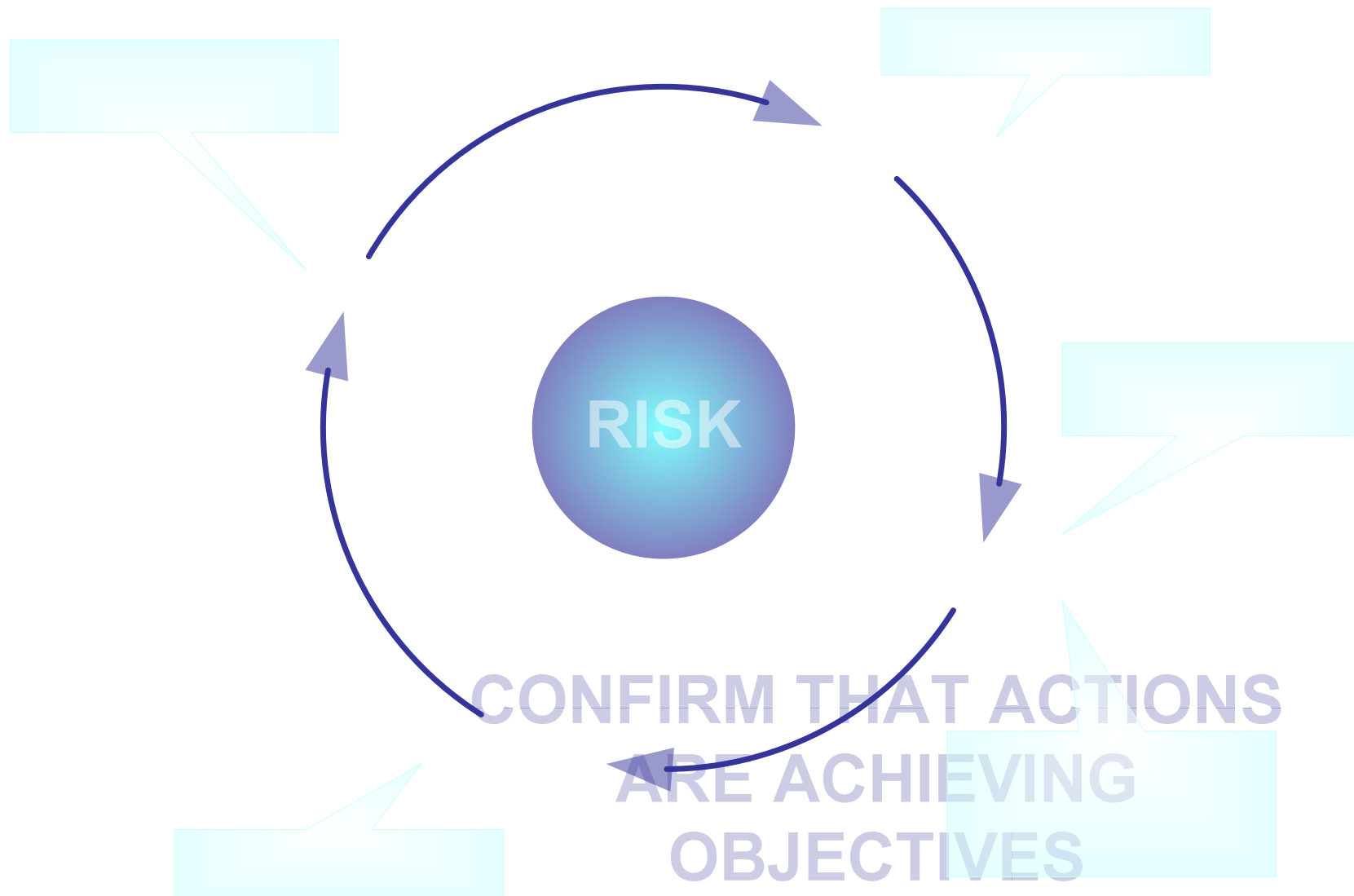
National Post, January 2, 2004

How financial risk should be managed is unique to each company.

- Organizations have differing tolerance for risk and therefore will have or need differing risk management practices.
- Just because risk management practices observed within two companies are different, does not mean one or the other is better.

The ‘right’ choice depends on many factors, including:

- the organization’s objectives
- the resources (people/time/money) available to dedicate to this function
- the competitive landscape



To effectively manage risk requires consideration of the 4 steps in the risk management process.

It also requires:

- Management oversight
- Clear articulation of the strategy
- Continued evaluation of the effectiveness of the strategy.
- Appropriate controls over activities

To accomplish this, policy or risk management guidelines should be developed

- Policy should document and communicate the strategy parameters and provide appropriate controls. It should also be ratified by the board (or highest level).

Policy should be reviewed periodically to ensure still relevant

- Have there been changes in the business that would impact the strategy?
- Is there a change in risk appetite that would impact the strategy?

Key Messages:

- Market risk is an inevitable part of most businesses
- In an uncertain world, reducing the impact of some of the risks you can manage may help you survive
- What your competitors do is an important consideration – you may want to do the same, or differentiate yourself by doing something different
- With appropriate controls, derivatives are highly effective risk management tools
- Doing nothing may be a dangerous strategy, especially with the markets behaving as they have recently
- Selection of an appropriate strategy must be based on a sound understanding of the underlying risks and a good sense of the company's appetite for risk.

Questions and Discussion

Thank you.
