

The
Management
University
of Africa



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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 322: FINANCIAL RISK MANAGEMENT

DATE: 2ND APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.

7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) Fidden is a medium-sized UK company with export and import trade with the USA. The following transactions are due with the next six months. Transactions are in the currency specified.

Purchases of components, cash payment due in three months:
£116,000

Sales of finished goods, cash receipt due in three months: \$197,000

Purchase of finished goods for resale, cash payment due in six months: \$447,000

Sale of finished goods, cash receipt due in six months: \$154,000

Exchange rates (London market)

	£
Spot	1.7106 - 1.7140
Three months forward	0.82 - 0.77 cents premium
Six months forward	1.39 - 1.34 cents premium
Interest rates	

Three months or six months	Borrowing	Lending
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Sterling	12.5%	9.5%
Dollars	9%	6%

Foreign currency option prices (New York market)

Prices are cents per £, contract size £12,500

Exercise price (\$)	Calls			Puts		
	March	June	September	March	June	September
1.60	-	15.20	-	-	-	2.75
1.70	5.65	7.75	-	-	3.45	6.40
1.80	1.70	3.60	7.90	-	9.32	15.35

Assume that it is now December with three months to expiry of the March contract and that the option price is not payable until the end of the option period, or when the option is exercised.

You are required:

- (i) To calculate the net sterling receipts/payments that Fidden might expect for both its three- and six-month transactions if the company hedges foreign exchange risk on:
- a. The forward foreign exchange market; **(3 Marks)**
 - b. The money market. **(4 Marks)**
- (ii) If the actual spot rate in six months' time was with hindsight exactly the present six months forward rate, calculate whether Fidden would have been better to hedge through foreign currency options rather than the forward market or money market.
(7 Marks)
- (iii) To explain briefly what you consider being the main advantage of foreign currency options.
(3 Marks)
- b)** Discuss any four techniques a company might use to hedge against the foreign exchange risk involved in foreign trade.
(8 Marks)

QUESTION TWO

- a) Describe the term financial risk management. **(1 Mark)**
- b) Examine the importance of financial risk management to business organisations
(6 Marks)
- c) Discuss any four emerging trends in financial risk management **(8 Marks)**

QUESTION THREE

- (a) The financial manager of Town Ltd. is concerned about the volatility of interest rates. His company needs to borrow Sh. 100 million in six

months' time for a period of two years. Current interest rates are 15% per year for the type of loan that Town Ltd. needs. The financial manager does not wish to pay an interest rate higher than this. He is considering using different alternatives. For the following four alternatives, briefly explain how each could be useful to the financial manager:

- (i) Forward rate agreement. **(2 Marks)**
 - (ii) Interest rate futures **(2 Marks)**
 - (iii) Interest rate options. **(2 Marks)**
 - (iv) Interest rate swaps. **(2 Marks)**
- (b) Evaluate five situations in which scenario analyses can be used identify the firm's vulnerability to different crisis-phenomena:
(7 Marks)

QUESTION FOUR

- a) Discuss the steps involved in the financial risk management process **(7 Marks)**
- b) Explain four economic functions of the derivatives market **(8 Marks)**

QUESTION FIVE

- a) Risk control is an approach that concentrates on minimizing the risk or loss that the firm faces. Discuss the two techniques of risk control **(5 Marks)**
- b) Evaluate five approaches that can be used by financial institutions to manage credit risk **(10 Marks)**

QUESTION SIX

- a) In the recent past, the government has been aggressively wooing multinational companies to come and invest their resources in Kenya. Analyze the key decision areas that a financial analyst would have to advise a company that is considering making direct investment in Kenya and discuss the risks involved. **(7 Marks)**
- b) Analyze four main uses of VaR in finance **(8 Marks)**