



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BFI 4406 FINANCIAL RISK MANAGEMENT

SPECIAL/SUPPLEMENTARY EXAMINATION

SERIES: NOVEMBER 2024

TIME: 2 HOURS

Instructions to Candidates

You should have the following for this examination

Answer Booklet, examination pass and student ID

This paper consists of five questions.

Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

- a) Explain management risk and the types of risks involved.
(10 marks)
- b) Identify and explain **FIVE** risk management measures undertaken by an organization.
(10 marks)
- c) Explain the importance of risk management to an organization of your choice.
(10 marks)

Question TWO

Using relevant examples distinguish between the following terminologies as used in risk management.

- a) Pure and speculative risk (4 marks)
- b) Fundamental and particular risk (4 marks)
- c) A peril and hazard risk (4 marks)

- d) Loss prevention and loss reduction (4 marks)
 e) Loss retention and loss transfer (4 marks)

Question THREE

In July 2024, a specialist in stocks estimated that the following returns could be expected on the stocks of four large companies.

Companies	Expected Returns £ (K)
Lotus development	14%
General Electric	13%
Atretic oil	20%
Citicorp	18%

If we formed a Shs 100,000 portfolio, investing Shs 25,000 in each stock, calculate the expected portfolio return (20 marks)

Question FOUR

From the following data, calculate the standard deviation (σ) of the two companies (20 marks)

		Company X	Company Y
State of the economy	Probability of this state occurring	Rate of return if this state occurs	Rate of return if this state occurs
Boom	0.3	100%	20%
Normal	0.4	15%	15%
Recession	0.3	-70%	10%

Question FIVE

Risk results to not only direct losses but also consequential loss. Thus, the risk manager should leave no stone unturned when unveiling possible risk exposures. Discuss only **FIVE** (5) tools that the risk manager can use to identify all risks in the enterprise. (20 marks)