UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
JULY 2024 SEMESTER

COURSE CODE	:	EBB20603
COURSE NAME	:	RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTION
PROGRAMME NAME	:	BACHELOR OF BUSINESS ADMINISTRATION (HONS) IN ISLAMIC FINANCE
DATE	:	21 SEPTEMBER 2024
TIME	:	9.00 AM – 12.00 PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given in the question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This question paper consists of **TWO (2) Sections; Sections A and Section B**.
4. Answer **ALL** questions in **Sections A** and **Section B.**
5. Please write your answers on the OMR answer sheet and answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE SEVEN (7) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

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SECTION A (Total: 40 marks)

INSTRUCTION: Answer ALL questions.
Please use the objective answer sheet provided.

1. Why do we need risk management?

   A. To identify fewer opportunities and threats
   B. Risk analytics's ultimate value creation is realised when deployed in day-to-day business strategy.
   C. To eliminate the opportunities and ability to gain profit
   D. To develop a new business strategy and market penetration

2. Listed below are items in the process of risk management, EXCEPT __________________.

   A. identify
   B. evaluating
   C. monitor
   D. treat

3. How can organisations identify their risks?

   A. Through experience and the internal history of the company
   B. Through experience with competitors in different industry
   C. Through an academic institution that develops the framework of the study
   D. Through managing the company's sources of income

4. By knowing the risk level and its impact on the organisation, management knows how best to intervene if and when a series of risks occur. This statement refers to ________________.

   A. the process of identifying risk
   B. the process of evaluating the risk
   C. the process of monitoring the risk
   D. the process of treating the risk

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5. Listed below are the important elements in identifying the risk, EXCEPT ______________

   A. defining types of risk
   B. credit or operational or market risk
   C. the consequences of the risk
   D. identifying the stakeholders, (i.e., who is involved or affected).

6. The concept of *Al Kharaj Bid Dhaman* (Return assume liability) refers to ________.

   A. the benefit from a certain thing is in return for the liability that accompanies that thing.
   B. no reward without risk.
   C. entitlement of gain to the responsibility of losses.
   D. where the return gained is adequate to the risk borne.

7. Prohibited risk happens when it is involved in the following statements below, EXCEPT ___________________.

   A. risk in taking possession such sale of a run-away camel or forcibly possessed commodity/property.
   B. risk in quantity for which the sale price or rent is unknown in a sale or lease contract.
   C. risk in quality when the type, quantity or specifications of the subject matter of the contract are unknown.
   D. risk in existence when the sale of an existent thing.

8. How we can say that the risk is a manageable risk?

   A. When involved the types of risk that are inevitable, insignificant and unintentional.
   B. When it can occur loss and threats to the financial performance.
   C. Risk can be tolerated and become eliminated.
   D. The firm's financial performance faces a deficits

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9. Listed below are the basic Shariah principles in financial transactions, EXCEPT ________.

   A. prohibition of impure commodities
   B. non-application of contract
   C. prohibition of qimar
   D. prohibition of gharar

10. The best way to describe a conventional bank with Islamic Windows is when it ____________?

   A. Operates with full fledge Islamic contracts
   B. Operates under a conventional license and at full capacity running conventional daily activities.
   C. Acts as intermediaries and deploy funds as Islamic banks.
   D. Re-investment activities involve Islamic contracts and pay dividends as a return.

11. Listed below are the elements used in financial risk analysis, EXCEPT ______________.

   A. markets
   B. counterparties
   C. principles
   D. contracts

12. The contributions (capital) of the partners under this mode may be equal or unequal percentages of capital to establish a new income-generating project or participate in an existing one. This statement refers to _____________.

   A. *Mudharabah Muqayyadah* principle
   B. *Mudharabah Mutlaqah* principle
   C. *Musharakah* principle
   D. *Murabahah* principle

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13. How to identify the risk in *Mudharabah* contact?

    A. During the process of application the applicant.
    B. During the investment life of the agreement.
    C. During the process of asset allocation.
    D. During the process of capital contribution allocation

14. This type of financial contract is based on the sale for an agreed-upon profit. This means that, in addition to the cost of a commodity, there is an agreed-upon profit payable at present or on a date in the future in a lump sum (at the maturity day) or by instalments (cycle repayments). This statement refers to __________.

    A. *Mudharabah Muqayyadah* principle
    B. *Mudharabah Mutlaqah* principle
    C. *Musharakah* principle
    D. *Murabahah* principle

15. In what sense *Salam* and Parallel *Salam* are considered less risky as contracts respectively?

    A. *Salam* agreement allows the purchaser to lock in a price, thus protecting both parties from price fluctuation.
    B. *Salam* agreement allows the participant to share the return and capital contributions.
    C. *Salam* agreement allows the contract to be taken after the transactions.
    D. *Salam* agreements are compulsory to include the element of takaful.

16. Business risk is _________________.

    A. the potential loss due to the use of a wrong business model which puts capital at risk.
    B. the potential loss due to a catastrophic event.
    C. the potential loss due to market price volatility.
    D. None of the above.

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17. In a partnership contract, the bank is exposed to counterparty risk when __________.

    A. *Musharakah* capital is worth less than its value.
    B. counterparty loss of the invested asset.
    C. counterparty withdraws all invested capital.
    D. *Musharakah* capital is worth higher than its value.

18. ___________ is when the rate of return anticipated is relatively lower than other financial institutions.

    A. Operational Risk
    B. Credit Risk
    C. Market Risk
    D. Withdrawal Risk

19. In *Ijarah,* __________ relishes beneficial ownership while ________ ownership risk remains with the ________ throughout the rental tenure.

    A. lessor, lessor
    B. lessor, lessee
    C. lessee, lessee
    D. lessee, lessor

20. Generally, when the bank purchases an asset but is unable to sell it above the cost price, the bank suffers a capital loss. This situation best describes as ___________.

    A. liquidity risk
    B. price settlement risk
    C. market risk
    D. equity risk

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SECTION B (Total: 60 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

a. Identify and elaborate **FIVE (5)** associated risks and applicable risk mitigation approaches concerning Istisna's financing contract.

(10 marks)

b. In 2019, Bank Negara Malaysia introduced a new Shariah governance policy and the requirements in this policy document outline the Bank's strengthened expectations for effective Shariah governance arrangements that are well-integrated with the business and risk strategies of the Islamic financial institutions. Among the key components is emphasizing the function of Shariah risk management in Islamic Financial Institutions.

I. Define the Shariah risk management concept

(2 marks)

II. Elaborate Shariah Risk management functions

(6 marks)

III. Briefly explain the impact of Islamic financial institutions' failure to adhere to Shariah governance policy.

(2 marks)

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Question 2

The “5C’s of Credit” is a common framework used by Islamic banks to evaluate the creditworthiness of a customer. These 5C’s help assess the risk of approved financing or extending credit.

Appraise and justify the following scenarios based on the 5C’s of Credit.

a) Startup business owner applies for business financing but has invested little to no personal capital into the business and has minimal savings or assets. They also try to start another business diversification in a declining industry during a period of economic recession and high OPR rates and have a history of multiple financing defaults.

(10 marks)

b) Saufe applies for a Home Financing-I for investment purposes during the market in good condition. MUFG Bank examines Saufe’s income, job stability, and existing debt obligations. He has a stable job with a high income and minimal existing debt. He also offers his land as collateral for the application.

(10 marks)

Question 3

Bank Negara Malaysia has raised the Overnight Policy Rate (OPR) seven times since May 2022 from 1.75% to 3.00% in May 2023.

a) Discuss the impact on earnings of Islamic banks from the increase in the OPR, given the structure of banking assets and funding given below in Table 1:

ASSETS RM500 BILLION	FUNDING RM500 BILLION
FIXED RATE ASSETS RM400 BILLION	VARIABLE RATE DEPOSITS RM400 BILLION
VARIABLE RATE ASSETS RM100 BILLION	FIXED RATE DEPOSITS RM100 BILLION

(10 marks)

b) Determine how Islamic banks mitigate risks from the increase in the OPR.

(10 marks)

END OF EXAMINATION PAPER

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