



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
MARCH 2024 SEMESTER**

COURSE CODE	: EBB20603
COURSE NAME	: RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS
PROGRAMME NAME	: BACHELOR OF BUSINESS ADMINISTRATION (HONS) IN ISLAMIC FINANCE
DATE	: 4 JULY 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**. **Section A** and **Section B**.
4. Answer **ALL** questions in **Section 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 EIGHT (8) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

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. How can organizations identify their risks?
 - A. Through experience and the internal history of the company
 - B. Through an experience with competitors in a different industry
 - C. Through an academic institution that develops the framework of the study
 - D. Through managing the company's sources of income
3. 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).
4. 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.

5. 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.
6. 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
7. 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
8. 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

9. 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.
10. 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.
11. 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.
12. _____ 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

13. 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
14. The major contribution of profit and loss earnings for Islamic bank operations is dependent on economic health. Moreover, given a signal of expansion and contraction of economic scenarios Islamic banks are also exposed to _____ for bank capital management.
- A. market risk
 - B. business risk
 - C. financial risk
 - D. credit risk
15. A method system based on the judgement of experts who are involved in the credit approval process. It is very subjective and depends on the experience. The design of the expert systems is driven by rules that combine the criteria used for the expert's judgements. These methods refer to _____.
- A. qualitative methods.
 - B. quantitative methods.
 - C. ledger methods.
 - D. hybrid methods.
16. What sort of information and data are needed in quantitative assessment?
- A. The past and current behaviour of market
 - B. The past and current behaviour of the counterparty.
 - C. Cumulative data in past year risk evaluation.
 - D. Risk assessment in current competitors' events.

17. The calculation of the expected and unexpected losses requires the calculation of a few components listed below, EXCEPT _____
- A. the probability of default (PD)
 - B. the loss given default (LGD)
 - C. the exposure at default (EAD)
 - D. the amend default (LAD)
18. The default is best defined as _____.
- A. inability of repayments or delays in repayments may be subjective to the institution that is providing such contracts.
 - B. ability to manage the hazard on the specific event and reduce the tendency of losses.
 - C. ability to harm the business operation of the competitors in the same industry.
 - D. inability to restructure the capital towards some general consumption.
19. Credit risk management can be done as listed below, EXCEPT _____.
- A. screening.
 - B. monitoring and enforcing restrictive covenants.
 - C. establishment of long-term customer relationships.
 - D. loan contribution.
20. Credit risk can be best defined as _____.
- A. risk due to uncertainty in the customer's/counterparty's ability to meet its obligation or failure to perform according to the terms and conditions of the credit-related contract.
 - B. risk is the possibility that an individual or other entity will experience losses due to factors that affect the overall performance of investments in the financial markets.
 - C. when the percentage of principal a lender charges for using its funds. The principal is the amount of cash granted.
 - D. risk is the potential risk that a business faces in pursuing its legitimate objectives.

SECTION B (Total: 60 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

- a. From your point of view, explain **FIVE (5)** elements involved when constructing the quantitative risk assessment model. (10 marks)
- b. Identify **THREE (3)** credit experts are important in hybrid model risk assessment. (6 marks)
- c. Describe types of loss involved in total loss (4 marks)

Question 2

Appraise and justify the following scenarios based on the risk management method involved. Determine the recommendations to avoid any negative influence on Islamic financial institutions.

- a) As the financial services industry has become tech-based, threats such as malware, phishing, and denial of service attacks have become more sophisticated with each passing day and cybersecurity administrators are frequently overwhelmed by false positives and spend significant time investigating things that aren't actually problems for Islamic financial institutions. (10 marks)
- b) The Shariah compliance of a product is established primarily by examining the Shariah-compliant status of its underlying contract. When a product or transaction is detected as potentially Shariah non-compliant during a Shariah audit, the Shariah Committee of the Islamic bank determines whether the transaction is Batil or Fasid. The risk manager must advice the Shariah Committee on the mitigation for non-shariah risk items according to section 28 (3) IFSA 2013. (10 marks)

Question 3

Al-Bilad Islamic Bank Statement of financial position as of 31 December 1998			
Assets	Note	1998 '000	1997 '000
Cash	12	1,867	2,638
Treasury placements and cash balance with banks	13	246,809	383,864
Home purchase plan	14	1,191,984	1,193,727
Commercial property finance	14	669,653	557,267
Investment securities	15	123,532	170,571
Property and equipment	16	7,628	11,198
Intangible assets	17	4,101	5,069
Deferred tax assets	18	7,607	5,977
Sharia compliant derivative financial instrument	27	-	5,137
Other assets	19	5,710	5,193
TOTAL ASSETS		2,258,891	2,339,821
Liabilities and Equity			
<i>Liabilities</i>			
Deposits from banks	20	98,962	37,867
Deposit from customers	21	1,959,663	1,965,001
Subordinated funding	22	25,000	25,000
Sukuk funding	14	-	146,944
Other liabilities	23	17,363	14,948
Sharia compliant derivative financial instrument	27	592	5
TOTAL LIABILITIES		2,101,580	2,189,765
<i>Equity</i>			
Share capital	24	121,219	121,219
Contingent convertible investment	24	3,000	3,000
Share premium	24	-	54,807
Revaluation reserve		(995)	753
Retained earnings/ (deficit)	24	33,989	(29,823)
Profit stabilisation reserve		98	100
TOTAL EQUITY		157,331	150,056
TOTAL LIABILITIES AND EQUITY		2,258,891	2,339,821

(Source: Al-Bilad Islamic Bank 1998 statement of financial position)

Assume that 90% of the Commercial Property Finance is a Murabahah Tawarruq financing portfolio with 30 years tenor. The Probability of Default (PD) for Murabahah Tawarruq financing is estimated at 30%. The total balance outstanding for the Commercial Property Plan is 70% at the end of 1998. Based on Al-Bilad Islamic's bank statement of financial 1998, answer the following:

- a) Calculate the Exposure at Given Default (EAGD) for each year (1998 and 1997).

(2 marks)

- b) Calculate the Loss Given Default (LGD) given the collateral value is only 40% of the outstanding amount at default for each year (1998 and 1997).

(6 marks)

- c) Calculate the Expected Loss (EL), Unexpected Loss (UL) and Total Loss (TL) for each year (1998 and 1997).

(12 marks)

END OF EXAMINATION PAPER