



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
JULY 2025 SEMESTER**

COURSE CODE	: EBB20603
COURSE NAME	: RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTION
PROGRAMME NAME	: BACHELOR IN ISLAMIC FINANCE (HONS)
DATE	: 18 SEPTEMBER 2025
TIME	: 2.00 PM – 5.00 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 answer only **TWO (2)** from **Section B.**
5. Please write your answers on the 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 FOUR (4) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

SECTION A (TOTAL: 60 MARKS)**INSTRUCTIONS: Answer ALL questions****Question 1**

- a) Define and describe the application of forward-sale contracts such as Salam and Istisna' in Islamic banking practices, respectively.

(10 marks)

- b) Explain TWO (2) sources of rate of return risk in a forward-sale contract.

(10 marks)

- c) Demonstrate FIVE (5) mitigation approaches to deal with rate of return risk.

(10 marks)

[Total: 30 marks]**Question 2**

An Islamic bank has extended a Murabahah facility of RM10 million to a corporate client. Based on the bank's credit risk assessment, the following data is provided:

- Probability of Default (PD): 4%
- Exposure at Default (EAD): RM10 million

The bank sets a provision equal to the expected loss. After one year, the customer defaults, and the estimated recoverable value from collateral and guarantees worth RM3.5 million. The bank reported that the actual credit loss amounts to RM6.5 million.

- a) Calculate the Loss Rate Given Default. Show your working steps and provide answer in two decimal places.

(3 marks)

b) Calculate the Expected Loss. Show your working steps and provide answer in two decimal places.
(3 marks)

c) State the Provision for Non-Performing Loan amount.

(3 marks)

d) Calculate the Loss Coverage Ratio and interpret the result.

(5 marks)

e) Provide the implications of your answer in d), to the bank.

(4 marks)

f) Justify the use of Expected Loss as the basis for provisioning in Islamic banking, from financial perspective.

(6 marks)

g) Justify the use of Expected Loss as the basis for provisioning in Islamic banking, from Shariah perspective.

(6 marks)

[Total: 30 marks]

SECTION B (TOTAL: 40 MARKS)

INSTRUCTIONS: Answer only TWO (2) questions

Question 3

a) Define financial risks and non-financial risks facing Islamic and conventional financial institutions.

(4 marks)

b) Explain THREE (3) categories of financial risks.

(8 marks)

c) Explain THREE (3) categories of non-financial risks.

(8 marks)

[Total: 20 marks]

Question 4

a) Explain TWO (2) sources of liquidity risks that can arise in different Islamic finance contract.

(10 marks)

b) Demonstrate the role of Islamic Liquidity Hub such as Bursa Suq Al-Sila' via Commodity Murabahah in providing liquidity. Provide a figure to illustrate the process.

(10 marks)

[Total: 20 marks]

Question 5

a) Discuss THREE (3) key Shariah-based objections to the use of conventional derivative instruments in Islamic finance.

(9 marks)

b) Following your answer in a), explain how the following Shariah-compliant alternative serve similar risk management purposes.

(i) Wa'ad (Unilateral Promise)

(ii) Tawarruq or Commodity Murabahah

(6 marks)

- c) Other than your answer in b), describe TWO (2) more Shariah-compliant alternative to the conventional derivatives.

(5 marks)

[Total: 20 marks]

END OF EXAMINATION PAPER