



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION
JANUARY 2016 SEMESTER

SUBJECT CODE	:	EBB 20603
SUBJECT TITLE	:	RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS
LEVEL	:	BACHELOR
TIME / DURATION	:	2.00 PM - 5.00 PM / 3 HOURS
DATE	:	28th MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on BOTH sides of the paper.
3. This question paper consists of **TWO SECTIONS**
4. Answer **all SECTION A** questions and Any **THREE (3) QUESTIONS 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 SIX (6) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

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SECTION A (TOTAL: 40 MARKS)

INSTRUCTION: ANSWER ALL QUESTIONS

Please use the answer booklet provided.

Questions 1

Differentiate between systematic risk and non-systematic risks

(5 marks)

Question 2

Describe risk and risk management.

(5 marks)

Question 3

Briefly discuss the four processes in risk management?

(5 marks)

Question 4

One of the unique risk faced by Islamic banks is the *shariah* non-compliance risk. Elaborate how this risk can be arised?

(5 marks)

Question 5

List the THREE (3) components of Value at Risk (VAR) statistics.

(5 marks)

Question 6

What are the basic of *Shariah* principles in Islamic financial transaction?

(5 marks)

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Question 7

Briefly explain the Displacement commercial risk (DCR) and how to mitigate?

(5 marks)

Question 8

Briefly explain the types of risk which are market risk, operational, credit and liquidity risk.

(5 marks)

TOTAL: 40 MARKS

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SECTION B (TOTAL: 60 MARKS)

INSTRUCTIONS: ANSWER ONLY THREE QUESTIONS

Please use answer booklet provided

QUESTION 1

A. ABC Bank holds \$900 million Sukuk *murabaha* with probability of default (PD) = 5%. The collateral backing the Sukuk is worth \$300 million. The maturity is 10 years and already have finished 3 years. Exposure at default (EAD) is \$700 million. Answer the following questions:

- I. Estimate the loss rate given default (LGD) **(3 marks)**
- II. Calculate the expected loss (EL) of the facility? **(3 marks)**
- III. Differentiate between (EL) and (UL) and How to cover each type? **(4 marks)**
- IV. Describe the best ways to manage credit risk? **(6 marks)**

B. Ijarah contract between a bank and its customer is a "leasing" agreement that involve asset or properties. Subject matter must has a useful value which the ownership still remains to the bank with the right to use transfer to lessee. Period of lease must be pre-determined. Explain TWO (2) situations that would trigger a probability of default (PD) in Ijarah contract.

(4 marks)

[TOTAL: 20 MARKS]

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QUESTION 2

- A. Liquidity is generally defined as the ability of a financial firm to meet its debt obligations without incurring unacceptably large losses. Please explain how to manage liquidity risk if the bank is facing excess and lack of liquidity?
- (10 marks)
- B. Elaborate on the Shariah Compliance Parameter.
- (10 marks)

[TOTAL: 20 MARKS]

QUESTION 3

Basel II is a set of banking regulations put forth by the Basel Committee on Bank Supervision, which regulates finance and banking internationally. It attempts to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring institution liquidity.

- a) Distinguish THREE (3) important pillars stated in Basel II and the objective of each pillar to Islamic financial institutions.
- (3 marks)
- b) What are the major changes in Basel III? Explain.
- (6 marks)
- c) In order to maintain minimum capital requirement, Islamic financial institutions may quantify their risk by calculating their capital adequacy. Explain the consequence to the financial institution if their capital adequacy ratio falls below than the minimum requirement by the regulator.
- (3 marks)

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d) According to Pillar 1, Basel II, Islamic banking institutions in Malaysia are required to maintain at all times, Common Equity Tier 1 (CET1) ratio, Tier 1 ratio and total capital ratio at minimum level of 4.0%, 5.5 % and 8% respectively. The following information are obtained from Malayan Banking Berhad's Disclosure sheet as at 30.06.2014

Expressed in RM ('000)	Group	Maybank	Maybank Islamic
Total Capital	51,656,154	37,511,099	8,800,941
Credit RWA	276,967,811	199,113,732	50,455,726
Market RWA	10,971,410	8,418,269	419,214
Operational RWA	31,727,016	19,814,129	3,810,146
Credit RWA absorbed by Maybank)			(1,380,237)

Calculate total capital ratio for Maybank Islamic Bank Berhad as at 30.06.2014

(5 marks)

e) Comment on your findings in answer part D. Your answer shall include comparison with minimum capital asset ratio requirement; whether Bank Negara Malaysia shall intervene in the IOAAP and also the indication of the ratio to the depositors.

(3 marks)

TOTAL: 20 MARKS

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QUESTION 4

A. With the help of diagram, explain the mode of operation in Parallel Salam and the inherent risk associated with the contract.

(10 marks)

B. With the help of diagram, explain the mode of operation in Murabahah to the purchase order (MPO) and the inherent risk associated with the contract.

(10 marks)

TOTAL: 20 MARKS

END OF QUESTION PAPER

