



UNIVERSITI KUALA LUMPUR  
BUSINESS SCHOOL

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FINAL EXAMINATION  
OCTOBER 2025 SEMESTER

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COURSE CODE : EBB20603  
COURSE TITLE : RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTION  
PROGRAMME NAME : BACHELOR IN ISLAMIC FINANCE WITH HONOURS  
DATE : 30 JANUARY 2026  
TIME : 3:00PM -6:00PM  
DURATION : 3 HOURS

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INSTRUCTIONS TO CANDIDATES

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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 consist of ONE sections.
4. Section A consist of five questions. Answer FOUR (4) questions only.
5. Please write your answer on the answer booklet provided.
6. Please answer all questions in English only.
7. Refer to the attached Formula/ Appendies.  Tick if applicable

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THERE ARE 4 PAGES OF QUESTIONS INCLUDING THIS PAGE

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**SECTION A (Total: 100 marks)**

**Answer FOUR (4) questions.**

**Please use the answer booklet provided.**

**Question 1**

Islamic financial institutions (IFIs) operate under unique Shariah principles that significantly influence their exposure to financial risks and the way these risks are managed.

Discuss the key types of risks faced by Islamic banks and evaluate how Shariah principles shape the risk management framework in Islamic financial institutions.

(25 marks)

**Question 2**

Profit-sharing and asset-based contracts are fundamental to Islamic finance but expose Islamic financial institutions to unique risk characteristics compared to conventional banking. Critically analyse the risk profile of Islamic financing contracts, with reference to Murabahah, Ijarah, and Mudarabah. In your discussion, explain the types of risks involved and evaluate how Islamic banks manage these risks in practice.

(25 marks)

**Question 3**

Liquidity risk poses a significant challenge to Islamic financial institutions due to limited Shariah-compliant money market instruments.

Discuss the causes, implications, and management of liquidity risk in Islamic banks. Your answer should include reference to Islamic financial instruments and regulatory requirements

(25 marks)

## Question 4

Amin Islamic Bank offers a Murabahah financing of RM800,000.

Given:

- PD = 7%
- Expected Recovery Rate = 60%
- EAD = RM800,000

- (a) Calculate the Loss Given Default (LGD). (4 marks)
- (b) Calculate Expected Loss (EL). (6 marks)
- (c) Discuss two strategies to reduce EL. (10 marks)
- (d) Explain why Expected Loss (EL) is important for capital planning and provisioning in Islamic banks. (5 marks)

**Question 5**

The effectiveness of Shariah Governance in an Islamic bank is highly dependent on the integration of Shariah risk management and operational processes.

Critically evaluate the role of Shariah risk management in Islamic financial institutions.

- (a) Definition of Shariah non-compliance risk and how it differs from conventional compliance risk.

(6 marks)

- (b) Explain FOUR (4) functions of Shariah risk management.

(10 marks)

- (c) Explain three consequences to IFIs if Shariah non-compliance occurs.

(9 marks)

END OF EXAMINATION PAPER