CONFIDENTIAL
92943591

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EBB20603
COURSE TITLE	:	RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTION
PROGRAMME NAME	:	BACHELOR IN ISLAMIC FINANCE WITH HONOURS
DATE	:	27 JUNE 2026
TIME	:	9:00AM - 12:00PM
DURATION	:	3 HOURS

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 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*

THERE ARE 5 PAGES OF QUESTIONS INCLUDING THIS PAGE

SECTION A (Total: 100 marks)

Answer FOUR (4) questions.

Please use the answer booklet provided.

Question 1

Islamic banks are required to manage risks systematically despite operating under Shariah constraints.
Explain the risk management framework and process in Islamic financial institutions, and critically evaluate how effective this framework is in managing modern financial risks.
Suggest improvements to enhance the overall risk management process.

(25 marks)

Question 2

Liquidity risk is more complex in Islamic banks compared to conventional banks. Explain the causes of liquidity risk, and critically evaluate its impact on Islamic financial institutions. Recommend practical solutions to improve liquidity management.

(25 marks)

Question 3

An Islamic bank offers various financing contracts such as Murabahah and Ijarah. Recently, the bank faced issues with delayed payments and asset-related risks.

(a) Explain TWO (2) risks associated with Murabahah financing.

(6 marks)

(b) Explain TWO (2) risks in Ijarah contract.

(6 marks)

(c) Discuss how Islamic banks mitigate risks in these contracts using Shariah-compliant techniques.

(13 marks)

Question 4

An Islamic bank provides Murabahah financing to SMEs in the construction sector. Due to rising material costs and economic uncertainty, several customers are facing cash flow difficulties, increasing the likelihood of default.

The bank's risk management team estimates the following for a particular financing portfolio:

Probability of Default (PD) = 5%

Recovery Rate (RR) = 40%

Exposure at Default (EAD) = RM2,800,000

(a) Calculate the **Loss Given Default (LGD)** and briefly explain what it represents in this scenario.

(3 marks)

(b) Calculate the **Expected Loss (EL)** and interpret what this value means for the bank.

(4 marks)

(c) Explain THREE (3) factors affecting credit risk

(9 marks)

(d) Suggest THREE (3) mitigation techniques.

(9 marks)

Question 5

The escalation of the Iran–US–Israel conflict has disrupted global trade routes such as the Strait of Hormuz, which handles a significant portion of the world's oil supply. This disruption has caused volatility in oil prices, inflation, and uncertainty in financial markets, affecting banking operations worldwide .
Assume you are part of the risk management team in an Islamic bank.

(a) Identify and explain **THREE (3) types of risks** arising from this conflict to Islamic banks.

(9 marks)

(b) Analyse how the increase in oil prices and inflation may affect:
i. Financing activities
ii. Depositors' behaviour

(8 marks)

(c) Recommend **FOUR (4) risk management strategies** that Islamic banks can adopt to manage the situation effectively.

(8 marks)

END OF EXAMINATION PAPER