



FINAL EXAMINATION
NOVEMBER 2023

COURSE TITLE	RISK MANAGEMENT IN ISLAMIC BANKING
COURSE CODE	RFIN4383
DATE/DAY	16 FEBRUARY 2024 / FRIDAY
TIME/DURATION	03:00 PM - 05:00 PM / 02 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 3 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of **THREE (3)** questions. Answer **ALL** the questions in the answer booklet provided. **[30 MARKS]**

QUESTION 1

(10 Marks)

Credit scoring is a systematic approach used by financial institutions to evaluate the creditworthiness of banks' customers. A person's creditworthiness is measured by a credit score, which can vary from 300 to 850 and is based on their payment history. A customer with a higher credit score will have a better chance of getting a financing approval. The below chart shows the different levels of possibility of an application being approved or rejected.

Table 1: Three-digit Credit Score

Score Table			
744	Excellent	850	Banks love you!
718	Very Good	743	You're a prime customer!
697	Good	717	Good job. You're above average!
651	Fair	696	Need some work. You're a bit iffy!
529	Low	650	Oh dear, it's not gonna be easy!
300	Poor	528	Your chances are low!
	No Score		

- Explain briefly **TWO (2)** Models of Credit Scoring used by banks in Malaysia to assess credit risk through credit scoring. (4 marks)
- How do financial institutions evaluate credit risk when considering higher-value financing? (3 marks)
- Identify **THREE (3)** advantages and disadvantages of the credit score system. (3 marks)

QUESTION 2

(10 Marks)

- a) Basel III is a set of international banking regulations developed by the Basel Committee on Banking Supervision (BCBS). The Basel III framework was initially agreed upon in 2010 and has been gradually implemented in phases by different countries and jurisdictions. Bank Negara Malaysia (BNM) has proactively implemented the Basel Accords. Discuss the purpose of the implementation of Basel III by BNM. (6 marks)
- b) How does Basel III address liquidity risk, and what is the Liquidity Coverage Ratio (LCR)? (4 marks)

QUESTION 3

(10 Marks)

- a) Market Risk or Systemic risk is the risk of widespread financial instability or collapse due to interconnectedness between financial institutions or markets. An example of systemic risk is the 2008 financial crisis, which was triggered by the collapse of the U.S. housing market and had global economic repercussions. Describe a strategy that can be used to manage market risk. (5 marks)
- b) Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, systems, people, or external events. Use an illustrative example to explain key operational risks associated with Islamic contract use in Islamic Banks. (5 marks)

*** END OF QUESTION PAPER ***