



FACULTY OF BUSINESS MANAGEMENT
END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA

YEAR/SEM: YEAR 3/SEMESTER 1

COURSE CODE: FIN 3103

NAME: ISLAMIC BANKING

DATE: 2025-04-17

TIME: 9:00AM-12:00PM

INSTRUCTIONS TO CANDIDATES:

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

DO NOT WRITE ANYTHING ON THE QUESTION PAPER

Section A SECTION A IS COMPULSORY

Question 1:

In 2016 the government of Uganda amended the Financial Institutions Act (FIA) 2004 to make provision for Islamic Banking. Financial Institutions then embarked on strengthening both their technical and operational capacity to roll out this initiative within the sector. Staff of supervised financial institutions continue to participate in capacity building/training programs on Islamic Banking. Regulators and Policy makers continue to facilitate the creation of an enabling environment that is supporting the operationalization of Islamic Banking in Uganda. The introduction of Islamic banking creates an opportunity for Ugandans to access a wider range of financial options and choice of banking products and services; this will ultimately contribute to the financial inclusion agenda. What Islamic Banking is about? Islamic banking, also known as non-interest banking, is a system based on the principles of Islamic or Shari'ah law and guided by Islamic economics. Islamic banks offer financial services, without using the conventional interest based system, providing for the sharing of net profit/loss and the risk involved in a proportional manner between the lender and the beneficiary. As such, a financial Institution not only expects to claim a proportion of the profits of a project, but also carries a proportional share of the loss of that project. Thus, in Islamic banking, financial Institutions make a profit through equity participation which requires a borrower to give the bank a share in their profits rather than paying interest. All Financial Institutions offering Islamic banking products and services are regulated by the Central Bank of Uganda. Islamic banking regulations were gazetted in February 2018 and these cover, license to conduct Islamic financial business, deposits in Islamic financial business, capital adequacy, liquidity and profits, credit provision in Islamic financial business, Shari'ah advisory board, central Shari'ah advisory council as well as remedial measures and administrative sanctions, and other macro prudential metrics to ensure stability of the financial system. Because Islamic Financial Institutions are required to follow Islamic or Shari'ah commercial laws, the Central Bank is to establish a Central Shari'ah Advisory Board to advise the Central Bank on matters of regulation and supervision of Islamic banking systems in Uganda and to approve any product to be offered by financial institutions conducting Islamic banking. On the fiscal side, the Ministry of Finance, Planning and Economic development through consultations with various stakeholders including the Uganda Bankers' Association, has put in place policy regulations and guidelines that will aid the taxation of transactions based on Islamic Banking.

Required

What are the key principles that differentiate Islamic banking from conventional banking systems, as outlined in the case study? (10marks)

How has the government of Uganda facilitated the introduction and operationalization of Islamic banking within the country's financial sector? (10marks)

What role does the Central Shari'ah Advisory Board play in the regulation and supervision of Islamic banking in Uganda? (10marks)

What are the challenges and opportunities for financial inclusion in Uganda that arise from the introduction of Islamic banking, as discussed in the case study? (10marks)

Section B ANSWER ANY THREE QUESTIONS IN SECTION B

Question 1:

a) Explain using examples the practical steps for *Murabaha* financing. (10marks)

b) Discuss the Shariah issues related to the contract of *murabahah*. (10marks)

Question 2:

) Using the knowledge of Islamic banking, discuss the conditions to *murabahah* contract. (10MARKS)

b) Explain the practical steps when formulating the *murabahah* contract.

(10MARKS)

Question 3:

) Discuss using examples the special features of Islamic banking system in the world. (10marks)

b) Explain the factors that need to be considered before the introduction of Islamic banks. (10marks)

Question 4:

Al-ijarah literally means rent/lease, with use of examples explain the principles of and types of *ijarah*.

Question 5:

a) Explain using examples the principles of Islamic banking applicable in Islamic banking system. (10marks)

b) using examples, discuss the prohibited elements in the *wadiah* contract. (10marks)

Question 6:

Using examples, distinguish between features of the conventional banking and Islamic banking. (20marks)