INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

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:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

SECTION A IS COMPULSORY

Question 1:

Islamic financial institutions are those that are based, in their objectives and operations, on Qur'anic principles. This rejection of interest poses the central question of what replaces the interest rate mechanism in an Islamic framework. Financial intermediation is at the heart of modern financial systems. If the paying and receiving of interest is prohibited, how do Islamic banks operate? Here profit and loss sharing (PLS) comes in as a substitute for interest as a method of resource allocation and financial intermediation. In fact, the basic idea of Islamic banking can be stated simply. The operations of Islamic financial institutions primarily are based on a PLS principle. An Islamic bank does not charge interest but rather participates in the yield resulting from the use of funds. The depositors also share in the profits of the bank according to a predetermined ratio. There is thus a partnership between the Islamic bank and its depositors, on one side, and between the bank and its investment clients, on the other side, as a manager of depositors' resources in productive uses. This is in contrast with a conventional bank, which mainly borrows funds, paying interest on one side of the balance sheet, and lends funds, charging interest on the other. The complexity of Islamic banking comes from the variety (and nomenclature) of the instruments employed, and in understanding the underpinnings of Islamic law. Six key principles drive the activities of Islamic banks: the prohibition of predetermined loan repayments as interest (riba); risk sharing is at the heart of the Islamic system; making money out of money is unacceptable – all financial transactions must be asset backed; prohibition of speculative behaviour; only Sharia'a approved contracts are acceptable; the sanctity of contracts. The principles as applied to Islamic banking and finance are set out below in the following sections. Predetermined Payments are Prohibited Any predetermined payment over and above the actual amount of principal is prohibited. Islam allows only one kind of loan and that is qard al hassan (literally 'good loan'), whereby the lender does not charge any interest or additional

amount over the money lent.

Questions

a) Identify the principles of Islamic banking. (**20marks**

b) What are the benefits of Islamic banking. (10marks

c) using examples, discuss the challenges facing Islamic bank. (10marks

Question 2:

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, isto 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 with examples the different the modes of financing available to Islamic banks.
(15marks)

b) Describe the sources of funds to Islamic banks you are familiar with. (15marks)

Question 2:

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

Question 3:

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

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

Question 4:

a) The success of Wadiah contract depends on trust among the parties involved in the contract. Explain the pillars of wadiah contract as applied by Islamic
banks.
(10marks

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

Question 5:

Al- ijarah literally means rent/lease, with use of examples explain the principles of and types of ijarah. (20marks

Question 6:

The success of Islamic banks is dependent upon management of risks affecting it. Using examples discuss the risks affecting Islamic banks and suggest ways of overcoming them.
(20marks

Question 7:

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

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

Question 8:

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 9:

a) Using examples, discuss the basic rules of musyarakah to be valid.

(10MARKS)

b) Discuss with examples the conditions that make musyarak contract to be valid.

(6MARKS

c) With illustrations, discuss the types of muyaraka contract applicable in Islamic banks.

(4MARKS)

Question 10:

) 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 11:

a)Using examples, discuss the differences *salam* and *istisna modes of Islamic financing* **.** (10MARKS)

b) Explain the objectives of Islamic banking applicable in the Islamic banking sector. (10Marks)

Question 12:

a) Using examples, discuss the principles of Islamic banking as applied in Islamic financial system. (10MARKS)

b) Discuss using examples the salient features of *Wadiah* Based on Custodianship. . .(10Marks)

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