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**Important Marking Instructions**

- Make marks that fill bubbles completely
- Example
- Erase unwanted marks cleanly
- Make no stray marks on this form

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**Test Items**

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**Islamic Banking & Finance (FIN 351)**  
College of Business Administration  
Gulf University for Science & Technology  
2nd Midterm Exam, 15<sup>th</sup> June 2017 (Summer)

Name: \_\_\_\_\_

ID No. \_\_\_\_\_

True / False Questions

1. The *Musharakah* certificate given to all *Sukuk* holders represent their proportion of ownership in the assets of the project being undertaken. **T**
2. Under *Musharakah sukuk* agreement, management of the business is the sole responsibility of the entrepreneur/mudarib. **F**
3. The contract of *Ijarah* has been used as a means of securitization of a tangible asset such as a hospital or airport which allows the issuance of *Sukuk* to prospective investors. **T**
4. *Sukuk Salam* and *Murabaha* are zero coupon Islamic bonds. **T**
5. The parties in *Takaful* are many and the participants insure one another against any loss and this is carried out mutually.
6. The *Takaful* operator manages the investment activities of the *Takaful* fund through *Mudarabah* and *Murabah* contracts only. **B**
7. In conventional insurance the underwriting surplus belongs to policyholders. **F**
8. In *Takaful* insurance the underwriting surplus is used to pay back debts and build reserves. **BT**
9. Through *Tabarru* contracts we avoid the *Gharar* element in *Takaful* insurance. **F**
10. The *Takaful* operator provides *Qard Hassan* to the *Takaful* fund whenever the need arises. **T**
11. *Murabaha Sukuk* are usually structured as an agreement between the *rabb al-mal* who provides the capital and the entrepreneur which may be an investment company or a Special Purpose Vehicle (SPV). **F**
12. *Mudarabah sukuk* holders can transfer the ownership of their *Sukuk* by selling it in the primary market. **F**
13. It is permissible under *mudarabah sukuk* agreement to create reserves for contingencies, such as loss of capital, by deducting from the profit a certain percentage in each accounting period. **T**
14. The returns and losses on *mudarabah sukuk* are shared and borne in accordance with the percentage of ownership of shares of each of the *sukuk* holders. **T**
15. All *Sukuk* are negotiable instruments.

16. The Hybrid model of Takaful is composed of Mudaraba and Wakala. ✓
17. Most of the time the underwriting activities are done by the TO through Wakala contract.
18. Takaful Operator is a company owned by shareholders. ✓
- F 19. Malaysia was the first country to establish a Takaful firm in 1970's.
- T 20. Premiums paid by takaful policyholders are considered as donations towards the common cause to assist those members who suffer any loss.
21. Although the aim of takaful is to promote solidarity and cooperation among Muslims under the principle of ta'awun, its initial objective remains to gain profit.
22. Under takaful, the participants remain the owners of the premiums even though they have donated them into a pool of funds to indemnify any member of the group.
23. When the participants' investment fund (PIF) is invested in Shari'ah-compliant business, the profit shared between the takaful operator and the participants based on a pre-agreed ratio.
24. Under the wakalah model of takaful, the takaful operator does not share in any risk borne in the investment or management of the takaful fund.
25. The relationship between takaful operator and participants can be characterized as insurer-insured relationship where each party assumes different roles and responsibilities

#### Multiple Choices Questions

26. Which one of the following is a non-tradable Sukuk?
- Mudarabah Sukuk
  - Ijarah sukuk
  - Musharaka sukuk
  - Salam sukuk
  - None
27. Which of the following sukuk can be traded in the stock exchange?
- Mudaraba
  - Musharaka
  - Wakal
  - Ijarah
  - All
28. In sukuk contracts the SPV
- represents the obligor
  - represents the investors
  - represents the arranger
  - B&C
  - None

29. What is the role of the SPV in a Muadaraba Sukuk?
- A/ Rab al Mal
  - B/ Mudarib
  - C/ A profit and loss sharing partner
  - D/ A Lessor
30. Fahad is expanding his car dealership and wishes to issue sukuk. He approaches a Bank which advises him to enter into an Ijarah Sukuk, using the premises he owns as an asset. In this scenario, which of the following is correct?
- A. The SPV is the lessee and the Sukuk holders are the lessor
  - B. The SPV is the lessor and the Sukuk holders are the lessee
  - C. Fahad is the lessee and the SPV is the lessor
  - D. Fahad is the lessor and the SPV is the lessee
31. Which ONE of the following statements explains the technique used in Takaful to avoid Gharar?
- A/ The owners of the Takaful company are policyholders.
  - B/ Policyholders donate their premium to the Takaful company.
  - C/ The owners manage themselves the Takaful company.
  - D/ The funds of the Takaful company are invested in non-interest bearing assets
32. Which ONE of the following statements concerning the utilization of the underwriting surplus of a Takaful company is FALSE?
- A/ The surplus is used to build up reserves.
  - B/ The surplus is distributed to the policyholders.
  - C/ The surplus is used to re-pay Takaful loans.
  - D/ The surplus is used to pay the management fees.
33. \_\_\_\_\_ promote stability and sustainability in the financial industry.
- a) corporate credit ratings
  - b) sovereign credit ratings
  - c) country risk ratings
  - d) credit ratings
34. Islamic bonds can be rated on two bases:
- a) long term and short-term
  - b) sovereign and corporate
  - c) public and private
  - d) none of the above
35. The two popular classifications of bonds while rating their quality are:
- a) 'investment grade bonds' and 'junk bonds'.
  - b) 'sovereign grade bonds' and 'corporate bonds'
  - c) 'investment grade bonds' and 'sovereign grade bonds'
  - d) none of the above

36. *Sukuk* can be defined as: certificates of equal value representing undivided shares in the ownership of :-
- A. tangible assets
  - B. usufructs
  - C. services
  - D. special investment activity
  - E. All of the above
37. Which of the following sentences is true?
- A. a conventional bond exposes the holder to asset level risks.
  - B. a conventional bond has no fixed maturity date.
  - C. a sakk grants the holder undivided beneficial interest in the underlying asset.
  - D. a sakk will not result in the holder incurring a loss.
38. If the obligor/originator has a tangible asset like a building and wants to raise fund which type of *Sukuk* would advise him/her?
- A. Musharak *sukuk*
  - B. Mudaraba *sukuk*
  - C. Istisn'a *sukuk*
  - D. Ijarah *sukuk*
  - E. All
39. Conventional securities are forbidden in Islam because
- A. they are linked to an underlying asset.
  - B. they are issued on financial markets.
  - C. they are equivalent to debt trading.
  - D. they are reevaluated if the asset is over performing.
40. *Sukuk* have been generally classified as:
- A. tradable and non-tradable
  - B. short term and long term
  - C. debt based and equity based
  - D. A and C only

**Fill the Blanks**

1. Bonds/Sukuk with "D" or "C" ratings are known as Junk bonds.
2. If GUST was looking for finance and used its building to issue Sukuk, that Sukuk would be ijarah Sukuk. <sup>subscribers</sup>
3. SPV always represents subscribers.
4. Investor helps in financing large enterprises beyond the ability of a single party to finance in addition to helping Islamic banks and financial institutions in managing their liquidity.
5. Whenever there is deficit in the    fund, the Takaful Operator provides back-up capital.
6. The first Islamic insurance/ Takaful company was established in 1979 in Sudan.
7. Surplus is the amount that remains after all expenses and management fees for the administration of the *takaful* fund have been deducted and the contributions are more than the claims made by the participants.
8. Main Features of *Takaful* are:-
  - a. Cooperative Risk Sharing
  - b. Cooperate financial Segmentation
  - c. Shari'ah-compliant Policies and Strategies
9. Cooperative risk sharing through the use of Wakala was designed to: eliminate *riba* and *ghrar* elements in *takaful* to address issues of social responsibility, solidarity and the innate need to care for others.
10. Mudaraba Sukuk consists of three types :-
  - Sukuk of ownership of services
  - *Sukuk* of ownership of usufructs of assets
  - Sukuk of ownership in leased asset

Answer only one question in detail (no less than 75 words) with clarity

1. Discuss the difference between shares and bonds
2. Discuss the difference between Sukuk and conventional bonds
3. Discuss the difference between tradable and non-tradable Sukuk.
4. Discuss about the importance of rating of Sukuk
5. Structure an Ijarah Sukuk for GUST using its building as an asset.
- ⑥ Mention minimum 5 benefits of sukuk.
7. Discuss the difference between Mudarabah model of Takaful and Wakal model of Takaful.
8. Discuss the Hybrid model of Takaful.
9. Discuss how the concept of Takaful operates.

Answer:-

⑥

① Enjoy ownership and control of the asset

② Profit is calculated according to the performance and the asset

③ Maturity will end when the project ends

④ They are assets backed instruments and are Shariah compatible trust certificates that are tradable.


⑤ Sukuk are rated by international rating agencies

perfectly  
⑥ Fulfill need for fixed income allocation

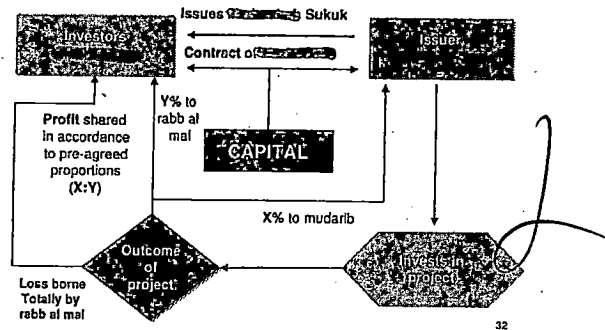
**Please, answer only two out of the following five questions:-**

1... Arrange the steps involved in structuring a Mudaraba Sukuk

- 9 - The SPV issues *sukuk* certificates to investors/*sukuk* subscribers
- 7- The SPV pays the investors/*sukuk* holders according to the units of their individual shares in the invested capital
- 4 - A company which needs liquidity establishes an SPV
- 6- The Mudarabah business is carried out and profits are periodically distributed among the two major parties: the company and the SPV
- 1 - Cash generated used as capital in Mudarabah contract between SPV and an organisation appointed to manage the business

Arranged steps: ~~1~~ 64971 

2. Name the following structure



3. Name the following structure

