

ISQ Examination (Summer-2012)

Subject: Islamic Banking & Finance – Stage-III

- Q. A) What is meant by Riba?
- Q. B) Define two types of Riba with a transaction example for each.
- Q. A) Profit given on saving accounts and fixed deposits is calculated differently than in commercial banking. Explain the Shariah compliant mechanism through which customers receive return on their deposits in an Islamic bank.
- Q. B) As per Shariah, the deposits in the banks are treated as Qard(loan) rather than Amanah(Trust). State the reason for their treatment as Qard.
- Q. An Islamic Bank has a total investment of Rs.300Million. This amount is raised by both the depositors and shareholders in a ratio of 2:1.

Investment by depositors: Rs. 200 Million

Investment by shareholders: Rs. 100 Million

It has been agreed that the shareholders as managing partners will get 1/3 of the profit and the remaining will be distributed according to the investment proportion between depositors and shareholders as per the Modarabah contract. The bank has made a profit of Rs. 48 Million.

- A) Allocate the profit between the shareholders and depositors as per Modarabah agreement.
- B) In what capacity will the shareholders and depositors receive profit?
- Q. Explain the basic steps involved in a Diminishing Musharakah transactions in an Islamic banks for housing finance.
- Q. You are sitting in a group of friends and one of your friend comments that conventional and Islamic banking are similar. How will you reply to this friend, and explain to him the basic differences between Islamic banking and conventional banking as well as the concept of Riba?
- Q. Explain how Ijarah can be used for car financing.
- Q. Conventional insurance is unlawful in Shariah due to the presence of Riba, Maisir and Gharar. Suggest a Shariah compliant alternative to conventional Insurance and explain its working.

- Q. Pakistan Chemical Industries Ltd. requires short term financing Rs.100 million for a period of 6 months. The requirement is for the purchase of 100,000 tons of Paraxylene (a chemical used as a raw material). The goods are available in the local market and can be bought against full payment to the supplier. The company has a large warehouse to store goods and has hired special expert for the purchasing of the raw material.**
- A) How can an Islamic bank fulfill this requirement using Murabaha and earn a return of 12% p.a. on this transaction?**
 - B) Describe the steps by step process to financing the above need and list the documentation involved in each stage.**
 - C) Calculate the sale price and profit to the bank.**
 - D) List the common mistake in Murabaha financing and suggest means to mitigate them.**

Q. Super Foods industries is setting up a new Milk Processing plant worth 1.2 Billion at Karachi. The company is in the food business for last 20 years and one of the major exporters of frozen foods to UAE and UK. The annual turnover of the company is 1.0 billion rupees. The company will be investing 480 million rupees in the new venture and remaining financing will be arranged on the basis of Islamic mode of financing.

The latest feasibility report presented in the Board of Directors meeting shows that the funds needed for expansion are allocated in the following heads:

Plant & Machinery	400 million
Delivery Trucks fleet	100 million
Office Building Purchase	50 million
Gas Generators	50 million
Factory Land	100 million
Salaries	100 million
Factory Overhead	100 million
Advances to utility companies	50 million
Raw Material procurement from suppliers	140 million
Fuel Charges	60 million
Cash	50 million
Total	1200 million

The company is looking for 60% Islamic financing with a long term financing share of 60%.

Requirement

You as an Islamic banking expert is being asked to provide them a structured solution for the company using the best mode of financing possible.

- A. Develop a financing plan for the customer based on the Islamic modes of financing and identify the best possible modes for the customer's need and give brief justification for the selection of each mode.
- B. What precautions you will advice to company and to your bank to avoid common mistakes in the financing under Islamic modes?
- C. What challenges you foresee in this project from Islamic bank point of view?
