T.C.
KARABÜK UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES
DEPARTMENT OF BUSINESS

THE TURKISH SYSTEM FOR ISLAMIC BANKING IN LIBYA

MASTER'S THESIS

Prepared by

Sabri ELMASSOURI

Thesis Supervisor
Assoc. Dr. Murat YILDIRIM

KARABUK
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To Karabuk University Directorate of Institute of Social Sciences

This thesis entitled **"The Turkish System For Islamic Banking in Libya"** submitted by Sabri ELMASSOURI was examined and accepted/rejected by the Thesis Board unanimously/by majority as a MA / Ph.D. thesis.

	Academic Title, Name and Surname	**Signature**
Head of Thesis Board	: Assoc. Dr. Muhammet BELEN	....
Advisor Member	: Assoc. Dr. Murat YILDIRIM.	....
Member	: Assoc. Dr. Yaşar ÖZ	....

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DECLARATION

I hereby declare that this thesis is the result of my own work and all information included has been obtained and expounded in accordance with the academic rules and ethical policy specified by the institute. Besides, I declare that all the statements, results, materials, not orjinal to this thesis have been cited and referenced literally.

Without being bound by a particular time, I accept all moral and legal consequences of any detection contrary to the aforementioned statement.

Name Surname : SABRI ELMASSOURI

Signature :

FOREWORD

Firstly, thanks to God for his great blessings and enable meto complete this research. I would like to express my deep gratitude to my master thesis supervisor Assoc. Dr. Murat YILDIRIM for the useful comments, remarks and assistance in every step throughout the process. My gratitude also goes to my university (Karabuk University) and its all-academic staff.

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ABSTRACT

In the second half of the twentieth century, there is an important phenomenon is grown which is the phenomenon to transform from the traditional banks to the Islamic banks. The Islamic exchange is considered a good method to produce the financing which associate with development. The Islamic exchange is emerged in the mid of the seventieth of the last century that paved the way for the Islamic banking industry. With this important Islamic financing background, our study came which focus on the potential of Islamic exchange in general and the rules and concepts of the Islamic exchange.

Since the seventieth of the last century, the Libya and Turkish banking sector suffer from many problems especially in Libya particularly when the Libyan government publicized the banks. In the highlight of the general property, the banking sector was weak because of many problems such as increasing the level of non-performing loans. So, the Libyan and Turkish governments started the reform in late years and remove the pressures and routing problems and work in the privatization in order to promote the performance of the two banking sectors. This study aims to analyze the work procedure of the Islamic banks and its administrational structure. Also, the study aims to make a detailed study about the Islamic banks and Islamic banking exchange in Libya and Turkey. The methodology of the study is represented in the literature, present and collect the data and analyze the statistics of the Libya and Turkish banking and Islamic banking systems and especially the Islamic systems. The statistical and electronic journal results showed that the Libyan banking sector suffer from many problems which weakness its contribution in the economy. Also, the statistical results showed that the Turkish banking system is started the growth and stability and contribute effectively in the Turkish economy especially after the year of 2000 according to following a success policy which managed by the officials at this framework. Finally, the study clarified

that the Islamic banking exchange in Libya has taken great interest and they receive increase demand and support.

Keywords: Islamic Banks, Traditional Banks Islamic Banks, Traditional Banks, Turkish Participation Banking System.

ÖZ

Yirminci yüzyılın ikinci yarısında, geleneksel bankalardan İslami bankalara dönüşme yönünde önemli bir olgu bulunmaktadır. İslami takas (mübadele), kalkınma ile ilişkili olan finansmanı sağlamak için iyi bir yöntem olarak kabul edilir. İslami mübadele, İslami bankacılık sektörünün önünü açan geçen yüzyılın yetmişli yıllarının ortasında ortaya çıkmıştır. Bu önemli İslami finansman tabanıyla, çalışmamız, genel olarak İslami mübadelenin potansiyeline ve İslami mübadelenin kural ve kavramlarına odaklanmıştır.

Geçtiğimiz yüzyılın yetmişinci yılından beri, Libya ve Türk bankacılık sektörü özellikle Libya hükümetinin bankaları kamulaştırdığı dönemde Libya'da çok sıkıntı çekmiştir. Genel mülkiyet vurgusuyla, bankacılık sektörü, takipteki alacakların seviyesinin yükselmesi gibi birçok sorun nedeniyle zayıf kalmıştır. Bu nedenle, Libya ve Türk hükümetleri son yıllarda reform başlattılar ve iki bankacılık sektörünün performansını arttırmak için baskıları ortadan kaldırdılar ve yönlendirme sorunlarını ortadan kaldırarak özelleştirme çalışmalarını yürüttüler. Bu çalışma, İslami bankaların çalışma usullerini ve idari yapısını analiz etmeyi amaçlamaktadır. Ayrıca, çalışma, Libya ve Türkiye'de İslami bankalar ve İslami bankacılık mübadelesi hakkında ayrıntılı bir çalışma yapmayı amaçlamaktadır. Çalışmanın metodolojisi literatürde temsil edilmektedir ve çalışma Libya ile Türk bankacılık ve İslami bankacılık sistemlerinin ve özellikle İslami sistemleri hakkında veri sunmakta ve toplamaktadır ve bunların istatistiksel analizini yapmaktadır. İstatistiksel ve elektronik dergi sonuçları, birçok sorundan mustarip Libya bankacılık sektörünün ekonomiye katkısının zayıf olduğunu göstermiştir. Ayrıca, istatistiksel sonuçlar Türk bankacılık sisteminin büyüme ve istikrarı başlattığını ve bu çerçevede yetkililer tarafından yönetilen bir başarı politikası izleyerek özellikle 2000 yılından sonra Türk ekonomisine etkin bir şekilde katkıda bulunduğunu göstermiştir. Son olarak, çalışma Libya'daki İslami bankacılık mübadelesinin büyük ilgi gördüğünü ve talep artışı ve destek aldığını ortaya çıkarmıştır.

Anahtar Kelimeler: İslami Bankalar, Geleneksel Bankalar, Türk Katılım Bankacılığı Sistemi.

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SUBJECT OF THE RESEARCH

The study aims to define the importance of the Islamic banks and the Islamic exchange work in different countries and describe them in details in terms of their transactions and problems which they face and the environment where they work which must be according to Islamic shariah in order to open the way in front of the financial contribution of growth, monetary and economic stability.

The goals of the research can be summarized as follow:

- **a.** Describe the Islamic banks and their transactions and the environment where they work and faith problem which they face.
- **b.** Give a brief overview about the Islamic banking experiment in Libya and Turkey, the way and the characteristics of their work in both of the two countries in details way.
- **c.** Make a comparison about the work of the traditional and Islamic banks between Libya and Turkey and reach into conclusions.

THE IMPORTANCE OF THE STUDY

The Islamic banks are economic and financial institutions which deal based on positive and doctrine foundations and they completely differ from the traditional banking institutions where they do not meet together in a specific position and do not consist in any result where each one of them has its objectives, goals and purposes which completely differ from the other. So, the Islamic banks have their own development role starting from their comprehensive commitment to the concepts and rules of Islamic shariah. We found that the ideology of Islamic banks differ from the traditional banks where they consider a direction of the Islamic economic activity and the most important elements of this ideology as follow:

- The dependence on Islamic faith.
- Remove the interest rate taking and giving in all transactions.
- The commitment of money investments in developing the economy according to investment map which explain the priorities.

- The commitment of the comprehensive concept of development which means to not look to the development on economic bases only.
- Take investment based on Musharakah concept in profit and lost.

Starting from this practical application, we find that the Islamic banks face many problems both from the faith, technical, administrational and organizational sides.

METHODS OF THE RESEARCH

In order to test the research hypotheses and achieve their goals, the researcher depended on the descriptive and analytical approach which is the basic goals of this research where we seek to achieve. Therefore, the research made a compressive overview about the Islamic banks in general and the way where they work and problems which may face and state the problems which face the Islamic banking exchange in Libya and Turkey and the history and the way where they work in both of the countries where the researcher presented on tens of articles and electronic journals and statistics and published data from different resources in addition to the data and statistics which publish by the Libya and Turkish central bank.

HYPOTHESIS OF THE RESEARCH

The research includes three hypotheses which can be illustraed as follow:

a. Islamic banks face many difficulties in the countries where they work including faith and Islamic difficulties in addition to the economic difficulties.

b. The problems which face the Islamic banks in Turkey are less than the problems which face the Islamic exchange windows in Libya.

c. The amount of support where the Islamic banks obtain in Turkey are more than the support obtained by Islamic exchange windows in Libya.

SCOPE AND DIFFICULTIES

Through the preparation of this study, the researcher has faced many problems asscoiate with collecting inforamtion and scietific materials espeically those related with İslamic banking windows in Libya because of the modernity of this topic and the lack of different resources which related to the Islamic banking in Libya. In addition, the researcher faced difficulties in associating and analyzing the variables to reach into results and difficulties in preparing the statistical results associate with the study, information and necessary data to accomplish the study.

CHAPTER ONE

ISLAMIC BANKING SYSTEM

1.1. Evolution of Islamic Financing and Banking System

Participation in banking in recent years has become quite popular in the world both in Turkey. The most important factor behind the popularity of this system in recent years is the demand for a certain segment of society in this system. People who care about religious rules do not want to earn interest income from their savings because they are contrary to religious rules. However, they are also not happy with their incomes. Participation Banking meets the demands of the people who bet, and continues its banking activities under the rules of Islamic religion. The most important rule that Islamic religion makes in banking and financial activities is the principle of "interest-freeness". According to this principle, in order for banking activities to be carried out in accordance with Islamic rules, the bank must operate without interest. Because of the prohibition of interest, Muslims have invested their money into the real estate or they have kept their money in jewel, precious metal or money. However, this time they have encountered another principle of Islamic religion. According to Islamic religion, it is not right to keep the wealth in the idle state and not to invest. For this reason, in different regions of the world, Muslim entrepreneurs have had to build banks that operate with interest-free systems. (Özsoy 2012: 70).

The emergence of participation banking has been caused by the initiatives of Muslims. Attendance banks, which continue their activities without interest, in line with the system developed by Muslim scholars, are trying to be conducted in accordance with Islamic principles. The main factors affecting the birth of the Participatory Banking (non-interest-bearing / Islamic banking) system, which is an economic and social institution, are the needs of the society. The existence of people who have Islamic sensitivities and try to rescue their lives in this direction, preferring to stay away from the economic instruments, prepared the ground for the emergence of participation banking (Ustaoğlu 2014: 13).

In summary, religious, economic, social and political reasons have been influential in the emergence of the participation banking system.

1.1.1. Religious Causes

When we look at the lives of the societies around the world, it seems that many religions are affected. It is known that attitudes towards interest are in the negative direction when we look at the accepted religions in the world. It has been stated by religious scholars and scholars that interest is forbidden for Islamic religion. In a clearer sense, it has been stated many times in the Qur'an, and in the hadiths that the interest is forbidden in Islam. For this reason, considering the Islamic principles, the concept of interest-free banking has begun to take place in people's thoughts, and these thoughts have laid the foundation for the emergence of participation banking. It is not just Islam; Interest in Christianity and Judaism religion is banned, and it is mentioned in religious books that interest should be removed. This is how religious religion approaches the people, without violating the religious rules, they are in search of a banking that fits their beliefs. Therefore, a new banking system was needed to bring the savings of the domestic and foreign economies to the economy of the conservative sector, resulting in the "Participation Banking" system (Kalaycı 2013: 51).

1.1.2. Economic Causes

These three economies, which prepare the ground for the emergence of participation banks, can be mentioned. These are (Kalaycı 2013: 74):

a) The high petroleum income of the Islamic countries in the 1970s flows into the Western economies under the name of petro-dollars and thus the developmental difficulties of Islamic countries; as well as the need for economic co-operation among the Islamic countries, which are capital-rich and capital-rich.
b) Traditional commercial banks prefer short-term commercial loans instead of long-term investment projects loans, resulting in delayed macroeconomic development.

c) Islamic banks, unlike interest-bearing banks, can exercise their funds on the basis of partnership and thus check whether the enterprises operate efficiently.

1.1.3. Social Causes

In the case of countries with both surplus funds and idle labor, these two factors of production are brought together by the participation banking system. The reason for the unification of these two factors under the framework of participation banking; funds in interest-free banking do not generate income over the interest but generate income within the affiliates and partnerships. The combination of idle fund and labor force contributes to ensuring equity in income distribution and strengthening of social state principle (Akcan 2012: 28-29). In addition, participation is motivating factors of production in creating banking employment areas. Thus, society plays a role in the injustice between rich and poor in life. We can say that; social peace, social cohesion, the acquisition of a strong economy, the presence of the participation banks is a strong alternative. (Ustaoğlu 2014: 18).

1.1.4. Political Causes

Countries such as Saudi Arabia and Iran, which imposed Islamic religion at the same time as a political regime, have begun to implement Islamic banking as "unselected" and countries like Pakistan and Indonesia as "phased" since 1970s. Political reasons for the emergence of participation banks include; With the spread of interest-free banking model in the Islamic geography, it is important to take a significant slice of the foreign capital pile that Islamic countries transfer through these banks; reconcile with the established financial system the small savings owners who counted interest forbidden and hold their savings under pillows or other caskets; the mother country of interest-free banking is to improve economic and political relations with Arab countries. (Kalaycı 2013: 61).

1.1. The Definition and Historical Impreving of Islamic Banks

The financial institutions in the Islamic Arabic countries at the time that came strong and new thanks to its adherence to the Book of God and the Sunnah of the Holly prophet Mohammed (peace be upon him) and these institutions take care of Muslims affairs and their needs individually and group and the home of the money in the forefront. The desperate of enemies on the Islamic banks led to weaken which motivate the need of people to the left people to fulfill their needs while in the modern age after the changing of life situation in all the fields. The paper money has emerged followed by the financial institutions that deal with interest that alone by Jews and Christian in Europe and because of the seriousness of these institutions that entered to the Islamic communities forced the Islamic communities to spend effort and find the alternative for those interest institutions (Al-Hiti, 1989: 174).

The Islamic awakening which lived and experienced by the Islamic communities was a major reason to search about an alternative Islamic of interest banks that distributed in the Islamic countries and found who encourages for brining and deal with them by taking benefits from their services that devoid of suspicious (Mohammed, 2002: 3). The ideas of most Muslims scientists and thinkers limited to just to the prohibition of those banks processes and criticize them without developing the suitable alternative. Later, the interest has increased that the jobs of these banks is not without the interest and benefit and achieve a lot of interests for people. Thus, efforts erected to identify the taboo and search on the suitable alternative without violating the Almighty Creator. The Islamic alternative ideas were the beginning of searching about Islamic banking alternative in the second annual conference 1965 and third annual conference 1966 to the Islamic research academy where its recommendations are to study about Islamic banking alternative and the way to implement it with the help of economist and the sixth annual conference invited to create Islamic bank in accordance with the provisions of Islamic Sharia. The first attempt or experiment to implement this idea in a rural area in Pakistan at the end of fiftieth while, the second attempt was at the Egyptian countryside in 1963 in (Mayt Omar) and in spite of the lack of success of these two experiments but the seventieth witnessed a new start where in 1971 the first bank that based on excluding the interest has been established which is Nasser Social Bank in Egypt followed by the creation of Islamic Development Bank in 1974 and Dubai Islamic Bank (Samhan, 2000: 3). Thus, the Islamic banks are rolled until there has been more than (90) bank at the end of 1992 and all of them work in accordance with the Islamic concepts foundations (AL-HITI, 1989: 174). When the Islamic Sharia has prohibited to get the interest, it is allowed to obtain the profit because the money that its own cannot or do not want to invest by himself he can give by the participation method to who work in share of achieved profit to work at this money where the non-usurious banks have been found to attract the saves and give the loans (Majid, 1997: 35).

Therefore, the goal of the Islamic banks is an expression about Islam and Islamic approach which links between the economic life with moral life and social life with religious life. Also, we conclude that the establishment of Islam in its financial legislation to the mix between the economic and ethics in addition to the Islam outlook to the interest (it deprives them even slightly) (Alnajar, Abdul Azeez, 1997: 42).

It must be mentioned that it is not permissible to release the Islamic bank classification as it considered one of the commercial banks where the usurious nature that surrounding the majority of short-term credit break to the lack of possibility to the dependence of Islamic banks on dealing within its scope. Thus, the Islamic bank can be ranked as it is considered one of the saving or investment banks and most realistic outlook to the Islamic bank ranked it according to overlapping position between the two types. So, according to the nature of Islamic bank, it is difficult for the analyst to separate between the nature of saving and investment of the Islamic bank (Nimat Najeeb and others, 2001: 23-24).

Currently, the Islamic banks idea attracting even Western and non-Muslims and in an article about the Islamic banks processes which have been published recently in Journal of Banking and Financial Studies that issuing from the Arabic Institute of banking and financial studies that Harvard University undertake a research project to study the past, present and future of the Islamic banking processes and the investment formula where the size of the Islamic market and its growth is mystifying them despite the obstacles the it has hampered. Also, at the article that the American City Bank planning to establish an integrated Islamic bank in Bahrain.

All this because the Islamic banks became one of the national economy pillars at the countries that have established them and the success of Islamic banks and the deployment speed confirmed the capability of Islamic ideas to be applicable and the Shara is existed wherever there is interest for people in this world and hereafter (Samhan, 2000: 3). Finally, we can say that the right practical application to the Islamic idea is that which achieve the interest of people and a way to break from the interest-based system based upon the capitalist economic system.

1.3. The Definition of Islamic Bank

The Islamic banks is financial institution to raise funds and deploy them in the scope of Islamic law which help to construct an integrated community and achieve equitable distribution and put the money in the Islamic path. Also, it is Islamic institution works in the field of business and aims to build the individual and community Muslim and enabling the opportunities to advance based on the Islamic foundations that committed at the bases of allowed and not allowed (Majid, 1997: 54).

1.4. The Demystification of Islamic Banking and Islamic Finance

There are enough investors and borrowers at the Islamic and non-Islamic countries to confirm the interest of traditional banks that are looking for customers service such those agents and reap good profits from markets that are still uncharted territory. The author of the article explains some of the mystery and shows how some Islamic goods can fit the traditional banking system and as a result serving retail of the Western bank and wholesale customers or help an institution offer Islamic financing. Some non-Islamic financial institutions may find that it is wise to use the Islamic financing to get on profits of Islamic markets to facilitate the entry or business promotion.

There are two of the basic Islamic concepts in the Islamic banking which are the absence of interest and the prohibition of usury based on the concept of do no harm in addition to the social and ethical characteristics that avoid the unwanted investments and the promotional trade. The prohibition of usury is associated with usury laws in many of the western countries or foreclosing on excess interest. What we call the pure Islamic banking, it looks like the capitalist funding based on speculation or the funding of project that demands the right of bill exchange owner or the traditional equality investment. Also, the investor has a share in the speculation profits and exposing to loss his capital. This consists of the investment and not the provision of loans, but some goods are more Islamic from another hand. As in the management of tax, there are huge good have been developed to meet the professionalism, but it is not necessity the spiritual of the organization and as in the process of transforming the interest into capital gains for tax purposes. Early Islamic investors were convinced to enter discounted closest lists and receive the interest on the form of capital gains. At the mid-eighties fixed the foreign exchange and transactions of deposits. The Islamic customer bought currency with discounted interest ratio or even gold from the bank and put this in the current deposit from the interest, and at the same time, the currency and gold have been sold in advance with re-advanced reflection to the fact of non-payment of interest on the deposit. The gain of closed capital like this is considered interest for the tax purposes and at the same image from several of transformation interest means to the gain of capital which is not accepted by the authorities increasingly (Al-Hiti, 1989: 178-180).

1.5. Ethical Issues Concern the Islamic Banking

There are issued behind the interest value where the Islamic investments away from tobacco, alcohol, entertainment and the unacceptable other sectors. The Islamic investors motivating in their selection of investments at the same standard that motivate their Western counterparts and search about balanced acceptable investments. The Islamic borrower appear resistance to give up a stack in their project gains and it is not surprisingly that the result of that most of the Islamic banking take one form of mark or another form of non-participation in the gain but the Islamic banking is still in the beginning of the way with 20 years of practice. According to the concept of do no harm, any person is not committed in any addition to the main amount (Majid al-Shara, 2003: 3).

1.6. The Importance of Islamic Banks

The Islamic banks found a type of banking deal which was not existed before at the traditional banking sector. The Islamic banks entered basis of interaction between the bank and customer that depends on the participation in the profits and losses. In addition, the participation in effort through the bank and customer instead of the traditional dealing basis that based on the principle of indebtedness (debtor\creditor) and provide the moneys only without the participation in the job. As well as, the Islamic banks found systems for the investment deal at the economic sectors and they are Islamic formulas (profitability, participation, speculation and industrialism) to other types of investments formats which suitable to be used in all the activities. The importance of the presence of the Islamic banks belong to the following:

a) Fulfill the desires of the Islamic communities in finding channels for banking dealing away from the use of interest rate.
b) Finding a field to apply the jurisprudence of transactions in the banking activities.
c) The Islamic banks are considered the practical application to the bases of the Islamic economics.

The pros of the Islamic banks include the following:

a) The Islamic banks formed a distinct Islamic character and independent feature in the economic terms that based on the origins of our religion and freed from the restriction of systems that do not adhere the Islam.
b) The Islamic banks cleared all the transactions from the scourge of usury and its severe consequences, scourge corrupting the morals and warning of a humanitarian at the devastation.
c) The Islamic banks eliminated the monopoly that imposed by the contribution companies.
d) The economic activity will be increased because it prohibits the usury from the banks. Thus, the nation will turn at all its talents and energies to

the economic beneficial benefits and exploit all of its resources better exploitations.

e) Established the rules of justice and equality in the spoils and spread the interest to the largest possible number of citizens (Metrek, 1997: 437-438).

The banking function in the Islamic banks are influenced in dimensions which are not accustomed by the traditional banks and this dimensions include the social dimension. The importance of banks are increased for the community when they take into consideration the community service and address to fix the economic and social problems (Al-Shara, 2003: 3).

1.7. The Features of Islamic Banks

The Islamic banks are wide spread through many countries at the curent time and their importance increase day by day according to the characteristics and benefits which they provide. The features of the Islamic banks can be summarized as follow:

1.7.1. Exclusion the Dealing with Benefits

The economic approaching in Islam at this regard is specific and decisive position with unequivocal which is drop the usury from all of its processes taking and giving and this property is considered the main and first instructor of the Islamic bank and without it this bank become usury because the Islam has forbidden the usury at all of its kinds and stressed the punishment (Baali, Mahmoud, 1990: 17).

1.7.2. Direct All Authorities Toward the Islamic Investment

It is known that the Islamic banks are primarily developmental banks and because of these banks are follow the method of God that represented in the legislation of Islamic sharia, the Islamic bank at all of its business is governed by the legislation of God and adhere to that rule which is the rule of allowed and not allowed which determined by Islam that resulting in the following (Al-Hiti, 1989: 193). :

a) Direct the investment and concentrate it in the production and services circle that fulfill the normal needs of the Muslim human being.
b) Conduct that the product whether it is a good or service in the Islam circle.
c) Conduct that all the production reasons (wages-business system) in line with the Islam circle.
d) The arbitration of society needs concept and the interest of community before considering the income which dates back to the individual.

1.7.3. Associate the Economic Development with Social Development

This comes in one hand that the Islamic banks in their Islamic nature mating between both material and spiritual sides. The social status does not separate from the economic status at the Islamic society where the Islam is an integrated unit which does not separate in the different sides of life and the Islam considers the social development is basic that the economic development does not lead to fruition without taking it into consideration (Al-Hiti 1989: 193).

1.7.4. The Revival of the Zakat System

These banks and from their noble mission to reconcile between the spiritual and material sides together. Thus, these banks established a special box to collect the Zakat which managed by these banks and thus result in a duty of God which imposed on this nation (Al-Hiti, 1989: 194).

1.7.5. The Elimination of the Monopoly Imposed by Some Investment Firms

These banks and from their basic function in the restriction at their transactions in the Islamic sharia legislations to eliminate the monopoly that imposed by some contribution companies on their stocks. These companies resort to issue (stocks) which enable them to get on new capital and keep the stock of the company limited only at the contributors hands, while the Islamic banks did not issue bonds because Muslim Jurists have banned the bonds but they aim to increase the capital, the expansion at their business and open the door of subscription to rights issue on their stocks to all who interested.

1.8. The Foundations of the Investment in the Islamic Banks

The most important foundations of the Islamic economic is the concept of succession which means that the money is for God and human beings do not own accept the right to use it). The investment comes in the beginning of the succession process and this means that it must has reliable foundations, and the most important foundations that the investment of capital in Islam depends including:

a) Avoid the usury in all the transactions.
b) Deprive monopoly.
c) The dependence of the investment on the production elements.
d) The dependence of the investment based on devotional.
e) A grace period for insolvent debtor.
f) The legitimacy of the Islamic projects.

Where the investment in Islam must be limited on the well work only while the deprived work is away from the Islamic investment because the goods that produced by this type even if it has a value in the other economic systems, it is considered out of the produced work in the Islamic economy.

1.9. The Forms of Investments in the Islamic Banks

The Islamic banks conducting many operations which aim to support the development in the society and the investment come at the forefront of these operations. This Islamic investment have distinct and various methods and types and all of them aim to achieve Halal profit and the most important of these forms as follow (Al-Hiti, 1989: 226-232):

1.9.1. Speculation

The speculation is considered the mean that combining between money and work with a view to invest money that their owners cannot invest it. As well as, it is the mean that based on benefit from the experiences of those who do not have money. The speculation is a contract between two or more parties which one of them provide the money and other participating in his effort to be agreed on the share of each party in the profit with known ratios of income **(**Baali, 2000: 68).

The speculation has many forms and types including:

a) **Special speculation:** means that the money and work are provided from one person.
b) **Absolute speculation:** it is the speculation that the owner of speculated money is not restricted with one type of investment or trade, but he has the freedom in choosing the activity that he sees suitable.
c) **Restricted speculation:** it is the speculation that the speculated capital owner is committed to use money in specific activity or trade.

1.9.1.1. Speculation Conditions

The speculation includes many condition which can be summeried as follow **(**Baali, 2000: 68):

a) The speculated capital must be cash and known.
b) The speculator does not guaranty the speculated capital in case of lost unless the owner of money proved to shorten the speculator is the reason for this loss.
c) The bank can ask guaranty which must be provided by the speculator to preserve its right in case of speculator shorten to implement of the terms that been agreed upon.
d) The share for everyone of profits must be determined as a share of profits and the profit must not be specific amount because the achieved profits may be less than that.

e) The time and place of speculation must be agreed.

1.9.2. Musharakah

Musharakah is an image close to the speculation and the basic difference between them that in the speculation case, the capital is provided by the money owner alone. While in the case of Musharakah, the capital is provided between two parties and the Musharakah contract is determined the special conditions between the different parties **(**Al-Husseini, Al-Douri, 2000: 202).

The Musharakah can be defined as a contract between two parties and each one of them provide known amount of money and will have the right to conduct the money completely as he is considered a partner and owner and the profit is distributed as be agreed between the two parties. While the loss is distributed according to the Musharakah ratio at the capital (Hinawi, 2000: 406). The Musharakah can be divided into two main forms:

a) **Diminishing Musharakah:** The Musharakah is conducting between two parties one of them is the bank and any other party whether he is an individual or company which has the right for the partner to replace the bank in the ownership of the project that joint between them at one time or in batches. The share of achieved profits for the individual or the company will not be payed as a part of retrieving the value of the bank share. This means that the partner at the end will be able of owning the project after it was able to repay the financing to the bank.
b) **Fixed Musharakah:** The pick project may take fixed legal form such as Contribution Company, simple recommendation, recommendation with stocks or solidarity according to the project format and size. At this point, the Islamic bank is financing a part of specific project capital and make it as a partner in management and supervision in the profit according to the agreed ratio. Each partner share of the partners is stay fixed until the end of duration of the project or the company that determined the deal.

1.9.2.1. Some Types of Companies in the Islamic Jurisprudence

There are some companies which operate by the Islamic jurisprudence that can be summerized as follow:

a) **Property Companies:** the participation of two or more persons in specific property with financial ratio.
b) **Contracts Companies:** It is a contract between two or more parties in the capital and profits resulting from its investment. The contract companies can be divided into:
   1. **Unleashed Companies:** It is one type of the contract companies that been agreed between the agreement parties not to act by any partner without the permission of its partner.
   2. **Negotiation Company:** It is the company in which the partners are equal in everything.

Unleashed Company is considered one of the most suitable investment formats in the Islamic banks such as the permanent participation and participation ends in partnership **(**Samhan, 2000: 44).

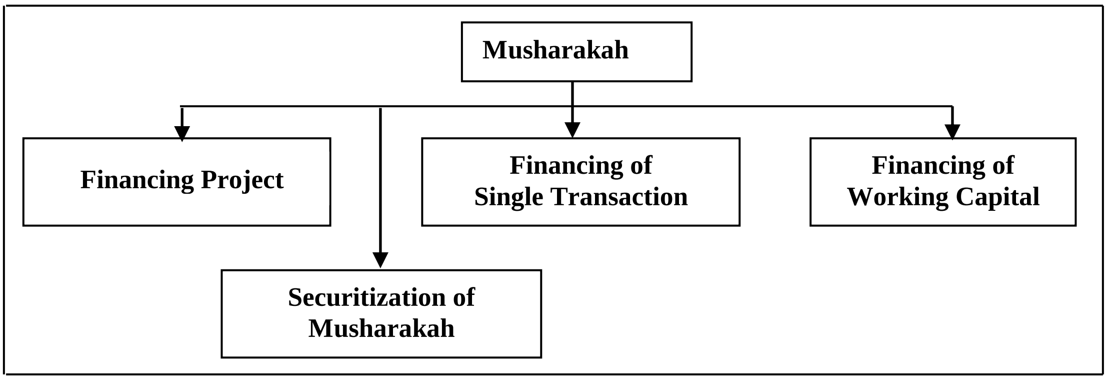

Figure 1: Musharakah Method (Samhan, 2000: 44)

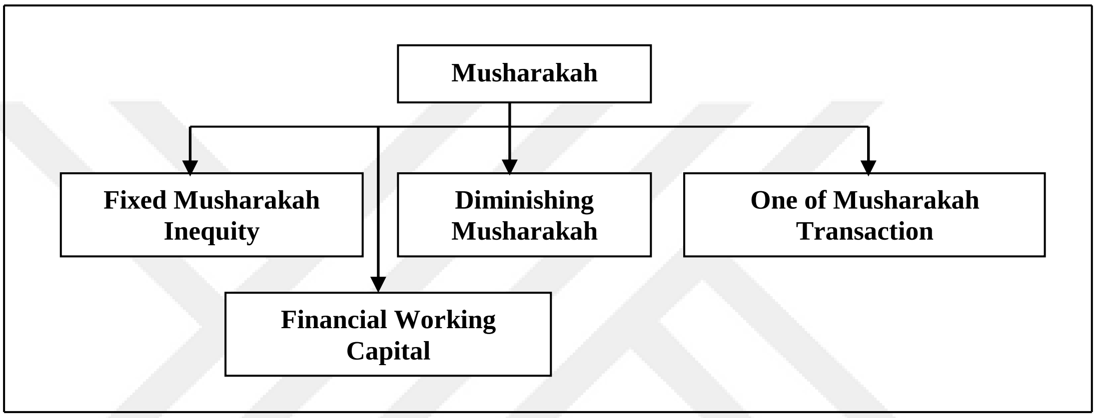

Figure 2: The Usage of Musharakah in Financing Business (Al-Husseini, Al-Douri, 2000: 202).

1.9.3. Murabaha

It is the selling by the price which the item been bought with known profit and the jurists in various doctrines agreed on two issues in the Murabaha (Hinawi, 2000: 407):

a) Statement of the price and what enters it and attaches it.
b) Increasing known profit on the price. The Murabaha conditions include:
    1. The price of the item must be known.
    2. The profit must be known for seller and buyer.
    3. Sales to be an offer where it is not correct to sale the money.
    4. The first contract must be correct and if it is corrupted, the Murabaha will not be conducted because it is the sale in the first price with increasing the profit.

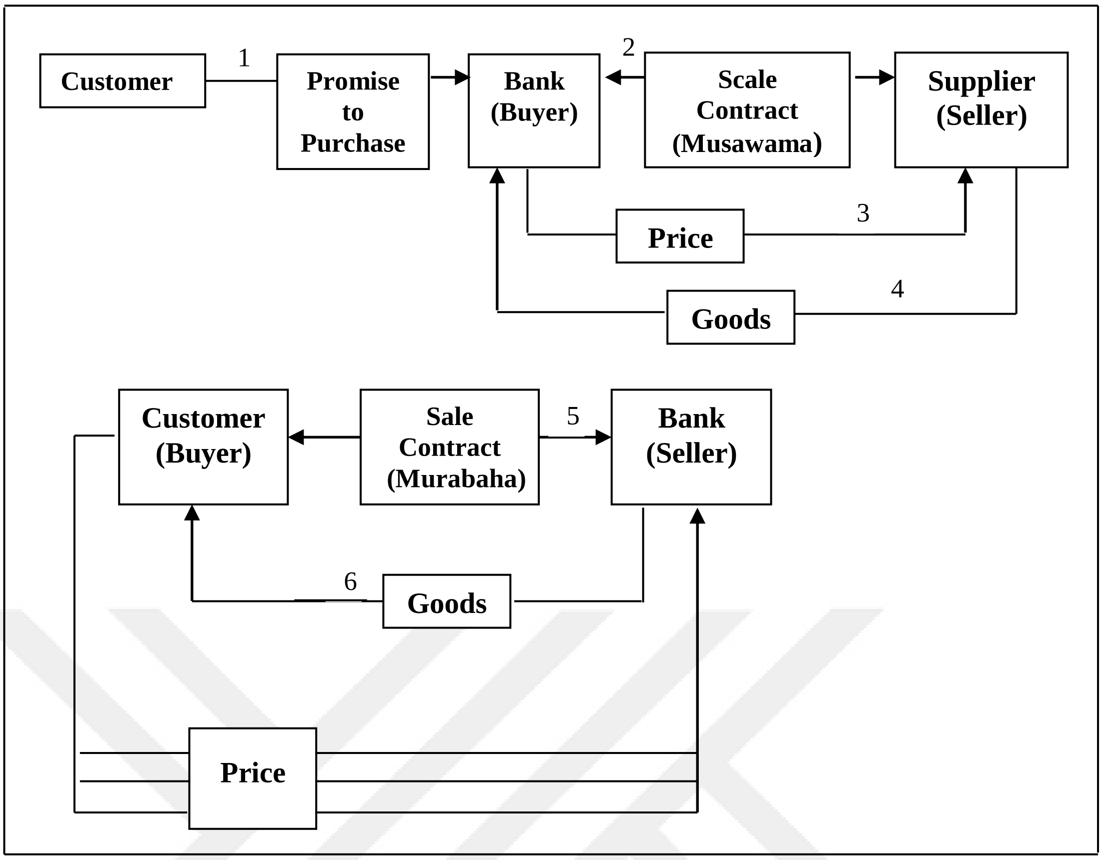

Figure 3: Murabaha Financing Process (Hinawi, 2000: 407).

Figure 3 clarifies the financing process of Murabaha as it is shown in this diagram in details with organized manner.

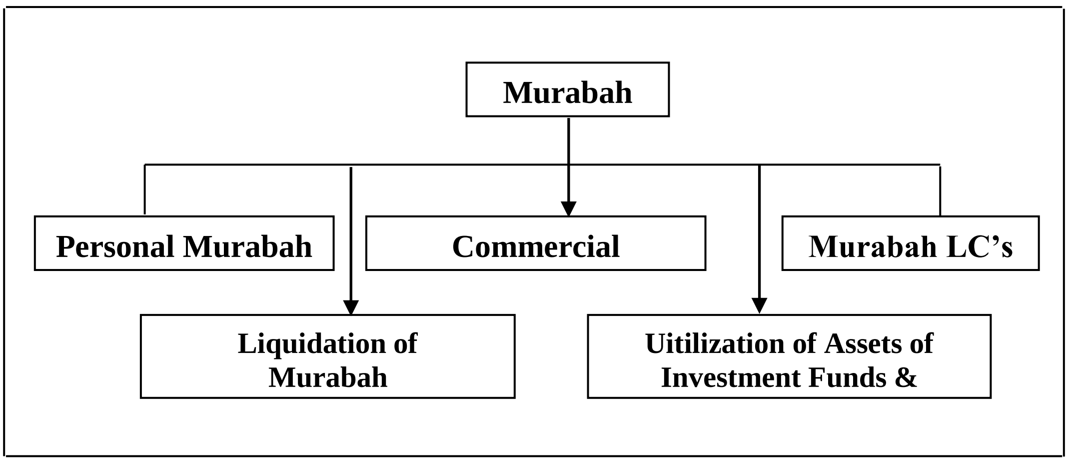

Figure 4: The Usage of Murabaha to Finance Various Needs of Clients **(**Al-Husseini, Al-Douri, 2000: 202).

Figure 4 clarifies the usage of murabaha to finance various needs of clients as it is shown in this diagram in details.

1.9.4. Types of Saling

The sales can classified into various types **(**Samhan, 2000: 72):

a) **Muqaygha sales:** a swap among items without cash and this sale was common before using the money.

b) **Sale of saruf:** the sale in price by price whether the price is sooner or later and include:

   1) **Salam sale:** the price is paying as money with postpone the delivery of sales.
   2) **Ajal sale:** the sales are delivered as money with postpone the paying of price.
   3) **Musawama sale:** it is done without the buyer knowledge for the cost of the item on the seller where the buyer does not know the quantity of buyer profit or his loss and this sale is allowed if it is not illegal sales.
   4) **Amana sales:** the sale is done by the buyer known of the item cost and the price is determined between each one of them according to that.

1.9.5. Salam Saling

It is the sale of something that caught its price as money and postpone its delivery into future period. The capital owner needs to buy the item and the item owner needs to its price in advance. Thus, we find that the bank or any dealer can lend money for producers and the loan will be repaid not by cash because it will be a loan with interest but it can be paid it by products which make us in front of Salam sale that allow the bank or dealer with allowed profit and the bank will conduct of goods and merchandise that it gets and it will not be a cash or credit dealer but it will real dealer and Islam recognized its legality and trade. Thus, the Islamic bank is not just a project that receives the money with interest, but it distributes them with higher interest but with special character where it gets money for trading, speculating and contributing to it. Therefore, the Salam contract is a way to finance and obviates the loan with interest where the goods and merchandise owners can get from the bank on their products price in advances to be delivered to the bank in the future to be traded. Also, the bank can use Salam sale to sale its business (Hinawi, 2000: 411).

1.9.5.1. Legality of Salam

The scientists have created conditions and restrictions that protect the Salam including **(**Samhan, 2000: 71):

a) A statement of gender, type and status in the price to avoid conflict.
b) A statement of gender, type and recipe of product.
c) The product must be deferred to known date.
d) The product must be found when the time comes.
e) The product must not be from the gender of the price and must not be agreed with him on usurious.
f) Some stipulated that the time must not be less than one month because the month is the minimum period that can achieve the interest of selling the product.
g) The price must be accelerated.

1.9.6. Istisna

It means that request of workmanship such as someone asked to produce for you a shoe, bag or something else and this matter is known as Istisna. Some jurist said that the Istisna must be placed in terms of the contract, recipe and weight. It is noteworthy that people have dealt at this contract from the time of our Prophet Mohammed (peace be upon him) who Istisna a ring. Istisna has benefits where it encourages the production, work, operate the workforce, increase the economic activity and provides the marketing process. Thus, the Islamic banks can enter the Istisna operations for example it can make Istisna contracts by their ownership of countries and conducting the manufacturing or they can be manufacturer and Mstasna at the same time which is called parallel Istisna and this type is the most suitable to the job of Islamic banks.

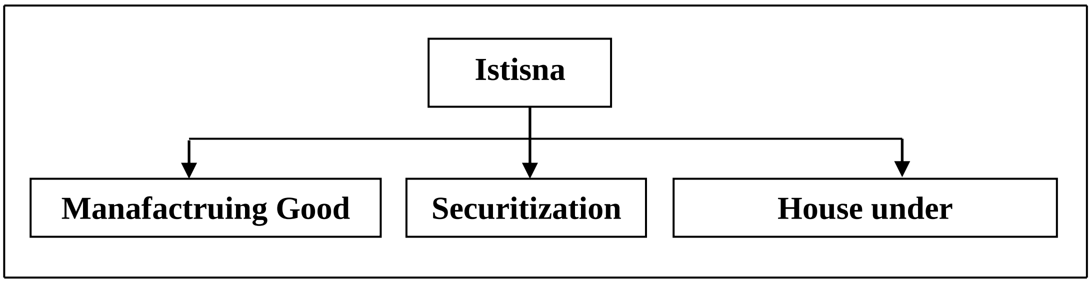

Figure 5: Istisna Method (Harak, 2000: 538-539).

a) The place of the contract must be known with gender, type and recipe and this accurate determination make the fall in the conflicts between manufacturer and Mstasna in minimalistic.
b) The place of the contract making the deal between people Istisna such as shoes, clothing and furniture.
c) The manufacturer must provide the industry facilities.

1.9.7. Hasen Loan

We knew that the Islamic bank does not give the dealers a loan at the meaning that is done by the traditional banks. Also, it does do not discounting the bills as in the traditional banks because it is not permissible for the bank to take any increase from the given money in this case where each loan with interest is considered usury. However, there are some cases where the dealer with the Islamic bank is obliged to get a cash for any reason where he may need to money for medical care, education, travel and others and it is not reasonable that the Islamic bank is not satisfy the need of this customer for two reasons (Hinawi, 2000: 411).

a) The interest of this customer is associated with the Islamic bank where it deposits his money and buy from it and deal with it in all his needs which mean the benefit of the bank from the customer.
b) There is social responsibility which is extending the help hand and help the community in which it operates and the most important of what it can inject to these members is to keep them away from borrowing with interest. This, it can give any individual of the community this loan whether he is a customer with the bank.

1) The box of Hasen loan is funding from the special money of the bank.
2) The deposited money in the bank on the form of loans (credits accounts).
3) The deposited money by the community in the Hasen loan box which authorize the bank to borrow them for people in the form of Hasen loan.

1.9.8. Investments to the Investment Companies

The investments companies can be defined as specialized companies in constructing and managing the investment portfolios where these companies receive money from investors from different categories to invest them in portfolios (boxes) and different investments. Then, the profits and losses of these investments are distributed on the participants in exchange that the investment company can get on a ratio from the profits. As is known, the Islamic banks have excess liquidity (sometimes) and cannot invest these liquidity, and thus these banks pay these money to investment companies conditioning that the portfolio which created by these companies does not contain on ungodly assets (such as bonds bearing fixed interest) and others of legal conditions that determined by the Supervisory Board.

The Islamic banks are investing in the securities by purchasing stocks of companies that their basic activity is not contrary with Islamic Sharia and the jurists have authorized this type of investment. For example, the Islamic bank can purchase stocks in the iron and cars factory and it cannot purchase stocks in a factory of alcohol or in usury banks (Al-Husseini, 2000: 207):

a) Exploit the available liquidity and not to waste the investment opportunity to achieve incomes and profits both during the sale and during the distribution of profits at the end of the financial year.
b) Promote the liquidity especially in the absence of the existing of the last loan.

1.9.9. Other Methods

The banks can use various formulas for the investment services conditioning to their lack of interest element and these formulas including (Al-Husseini, 2000: 207):

a) Provide letters of guaranty.
b) Provide documentary credits.
c) Installment sales or sales on credit.
d) Managing the financial portfolios and the establishment of investment boxes and brokerage business in the financial markets.

1.9.10. The Most Important Images of Permissible Banking Transactions

Permissible banking transactions includes many images and the most impornt of these images can be described bellow **(**Sahi, Abdo, 1984: 218):

a) Transfer money from one place to another in exchange of simple amount of money where the person can deposit the money by himself or by someone else and what the bank takes of money peer funding is a legal wage.
b) Issuing the travel checks which have strength of money to be sold in any place at the same contained amount of money or with the value from another currency and this goes for trading and the safety of the place of money itself.
c) Depts. collection set by bonds placed by the creditors in the bank and signing it to authorize the bank to catch in exchange of a wage at this work.
d) Renting the iron saves who wants to use them to put money in it.
e) Facilitate the dealing with other countries where the bank acting for dealers in paying the price and receives the documents of goods shipment. At this operation the bank facilitates to dealers a lot of troubles and hardship.

All of these transactions carried out by the bank in exchange of simple wages is considered one type of services that can be gotten by the agent (the bank) on wages exchange of its work and does not go out from the Halal circle. The Transaction Controls in the Islamic Banks are issuing the following:

a) **The Concept of Sharia Supervisory Board**
One of the Islamic bank devices developed to assess its goals.

b) **The tasks if Sharia Supervisory Board**
   1) The provision of legitimate solutions and the bank activities which make it in save to fall in forbidden.
   2) The provision of advisory opinions and follow-up the extent of the bank's commitment in the application and implementation in order to address to which may face of practical problems.
   3) Express the legitimate opinion as it requires from the bank transactions without stopping or waiting to display or ask to perform the legitimate at the bank.

Specifications of the bank Sharia Supervisory Board and guaranty its interactivity

a) **Sharia Supervisory Board specifications:** its members must be with scientific efficiency and eminent in the fields of financial transactions and Islamic economic and its members must not be less than three members.
b) **Guarantees the effectiveness of Sharia Supervisory Board:** so that board members must be chosen by the general assembly of the bank and not from the general manager of the bank which give them the strength in issuing the Sharia legitimate of the bank without equivocation or make personal interest to stay in the position of Sharia Supervisory Board. In addition, the attendance of the Board and the General Assembly in order to be aware of everything related to the bank transactions with the necessity that the advisory opinions and the opinions of the board will be binding with the hard and effective coordination between Sharia Supervisory Board in each Islamic bank and High Authority of advisory opinion and Sharia Supervisory emanating from the International Association of Islamic Banks (Eter, 2001: 38-39).

1.10. The Types of Islamic Banks Services

Dr. Gharib Al-jamal states that “the Islamic bank perform all the banking services jobs and its services targeting the services of agents and facilitate the transactions that associated to their activities. Also, the Islamic bank in exchange of these jobs gets on a wage called in the banking custom a commission. This wage in its opinion is allowed because it is identified by the jurists and determined its rules and conditions” (Mohammed Saleh Hinawi, Abdul Salam Said Fattah, 2000: 406). Banks service in the Islamic banks work in Islamic framework and they will stay as they are at the traditional banks”.

By following the transaction and banking services in the Islamic banking heritage, we find that the address of this aspect lack to the unit of curriculum and standard. Thus, who worked at this regard are disagreed in the results that they reached. Dr. Jamal Eddine Attia criticizes the traditional curriculum at this regard and sees that the dependence on the traditional treasury gowns (i.e. the discretion of the ancient jurists about the transactions to gain access to legitimate transactions conditioning banks in our time) cannot deny the theory of Islamic banking for forming an alternative Islamic of the traditional banks and their business. Therefore, it suggests creating the jurisprudence of Islamic banking approach looks more coherent in its theoretical streamline where it stems from the jurisprudential rules that adopted by the ancients to develop and manufacture the jurisprudential provisions and not from their advisory opinion. Consequently, he opened the door to the innovation and diligence with new opinion (Shaikhoun, 1990: 176-177).

As for the type of banking services that provided by the Islamic banks, they are divided into: two serevices where the first one is the credit operations which subjected to credit study and will be implemented in the banks as investment operations an the second one is the credit operations that do not include credit operations and they will be implemented as a banking service and a commission will be paid for providing this service.

There are traditional divisions for the banking services that classified them into three groups:

a) **Business of Banking Services Groups:** These groups include accepting business services and collect checks, operations of bank credits and letters of guarantee and so on.
b) **Business of Banking Facilities Groups:** The banking facilities include what is such guarantees and warrantees and it is a banking service, but they are not given full cover.
c) **Investment Business Group:** it means the employment for a part of its private money or the moneys deposited with it in projects that will profit both parties (the bank and depositor) (Wahba, 1981: 99-100).

The business undertaken by the Islamic banks can be summed as follows (Harak, 2000: 538-539):

a) Opening the current accounts.
b) Opening credits.
c) Acceptances of investment deposits with the bank moneys and everything permitted by Islamic law.
d) Keeping secretariats in the private security space.
e) Provides letter of guaranty.
f) Submission and acceptance of personal and in-kind insurance
g) Conducting foreign exchange.
h) Issuing checks.
i) Acceptance of instruments as shares of companies and commercial paper.
j) Issuing the stocks for the accounts of institutions and companies and help them in the underwriting operations.
k) Conducting the commercial, industrial, agricultural operations and others whether directly or by established companies or participated.
l) The provisions of consulting and services in regard with the emerging or buying of companies.
m) Barter and trade in the opposite.
n) Durable asset leasing
o) Time management and implementation of wills

1.11. Monitoring the Banking Institutions

The Sharia Supervisory is a profession in some banks have been developed in many countries and the Sharia Supervisory is found inside the Islamic banks to help the staff who not familiar with Sharia legitimacy to implement their jobs. So, Sharia Supervisory determines for them the steps of job and procedures and if any problem occurred during the application and the client disagreed with the bank, Sharia Supervisory is asked to take its opinion. The contentment of dealers with the bank is increased by its commitment with Sharia to implement their business. As well as, when the banks took over the supervision on establishing Sharia Supervisory Board in managing the monitoring on banks in addition to achieve a ratio of liquidity, profitability, credit status, incomes and repayment of customers. The existing of legitimate observer belong to the central bank is necessary to ensure the business of the Islamic banks and the Sharia Supervisory performs its commitments as required.

Sharia Supervisory Board must ensure that the banks and Islamic financial institutions perform the following:

a) Separate the Sharia Supervisory Board from the regulatory system of the bank where it is not correct that the legitimate advisors are employees in the bank to preserve their independence and they are appointing, separating and determine their reward by General Assembly and not the Board of Directors.
b) Develop the responsibilities of Sharia Supervisory Board as follows:
    1) The opinion of the Board is committed for the senior and implementation administration.
    2) The opinion of Sharia Supervisory Board is announced in its report to enable all the dealers with the bank to assured from the legitimate side.
    3) The report about losses that occurred and determine those responsible of its events to hold them the results according to the conditions of speculations conditions.
c) The necessity of placing legitimate evident for the banking financial transactions and take care of the efficiency of workers in the board and

issue bulletins on their recommendations and holding specialized courses and seminar in the legitimate side of the bank.

d) Evaluate the work environment in the institutions and their legitimate boards in terms of suitability to ensure compliance with Islamic Sharia regulations. Some central banks are interesting in the credit and risks sides without taking into consideration what associated with the Sharia legitimate in any form and the central banks must work to cover this important gap on the level of Sharia supervisory which shows us the effectivity of supervisory authority and its presence represents a protection to the legitimacy of practices on the level of authorities under the controlling of central banks.

Despite the integrating of Sharia Supervisory and consolidation for the following reasons:

a) Since it is elected by the general authority.
b) Since it is authorized by the law.
c) Since it is protected by the central bank that starting practice legitimate monitoring besides the technical side.
d) Since it is supported by the international authorities such as AAOIF, IFSB … etc.
e) In addition to the personal strength of jurists that represents the legitimate body.
f) Its integration is increased with the Sharia standards and unique revisions standards that contributed to unify the behavior and procedures and the issuing of professional certifications.

The Sharia Supervisory is still suffering a weakness from three sides, namely:

a) Independence: which effects on the efficiency and subjectivity in preforming its job.
b) The failure of the supervisory authorities to complete the professional and legislative framework of Sharia.

c) The weaknesses of abilities and monitoring skills from the professional side toward most auditing practitioners in the banks and Islamic financial institutions (Qntqjy, 2010: 281-282).

1.12. Similarities and Differences Between the Islamic and Usurious Banks

The Islamic Banks are like the usurious or traditional banks in the following issues which can be summarized below.

1.12.1. Similarities

The similarities between the usurious and Islamic banks are as follow:

a) Each one of them is subject to the control of the central bank, instructions, decisions, systems and laws associated with the banks jobs.
b) Each one of them does not pay any interest to the current accounts because the goal of these accounts is conducting the current transactions and not to get on any income because the Islamic banks do not deal with interest. Thus, they do now allow the participation of these accounts in the profits because they are calculating according to the demand and its possibility use are decreasing through the banks.
c) Replace the currencies that based on taking in the contract council and in the price of the contract day.
d) Renting iron cupboards.
e) Cash transfer.

1.12.2. Differences

The differences between the usurious and Islamic banks are as follow (Shehata, 1994: 17):

a) The Islamic banks conducting their jobs based on the participation system in the profit and loss while the commercial traditional banks based on the interest (usury) taking and giving. This means that the commercial traditional banks based on the loan with fixed conditional increase since the deposit time.

b) The Islamic banks give the investment a large space where they based on the Murabaha to buy something and Ijara that ends with ownership and others which lead to corporation between the capital and work unlike the traditional commercial banks that give the loan high importance and do not accept the investment only with narrow scope.

c) The Islamic banks are subject to legitimacy and financial control where the legitimacy control guaranty the supervision on the jobs and activities of these banks and be compatible with the Islamic laws and intent unlike the commercial banks where they subject to financial control only.

d) The Islamic banks work sometimes in the concept of compassion and facilitation where they take into account the humanitarian aspects such as the postponement of the insolvent debt unlike the commercial traditional banks that increase their insolvent by increasing the interests that represent in the amount of interest that must he pays in case of his insolvent to repay his depts. in the maturity date which is called the delay benefits, rather it comes to the worse such as the sequestration on his money and mortgaging to the bank and sale them at the lowest price in most cases.

1.13. Challenges that Face the Islamic Banks

One of the most important problems that face most of the Islamic banks include the following:

a) The central banks apply on the Islamic banks the same rate of monetary despite the different components of percentage numerator. Some researchers see that the Islamic banks are not dealing in the governmental bonds and they are one of the numerator percentage components and suggest considering the stocks within the numerator percentage components instead of the governmental bonds. Many researchers at the Islamic economics agree on the continuous of this rate because it does not contain on what depends on Usurious Dealing and it achieves the safety in managing the money at the Islamic banks (Al-Jamal, 1996: 101).

b) The central bank applying on the Islamic banks the same cash reserve requirements. So, many Islamic researchers and bankers see following about that:
   1) Retaining full reserve (100%).
   2) Applying the cash reserve ratio on the current accounts only.
   3) Applying cash reserve ratio as applied on the traditional banks (Salih Kamel, 1992: 27).
c) The difficulty of getting funds from the central banks when necessary. So, some researchers in the Islamic economic see that the central banks are going to place their money in the Speculative format with the Islamic bank and take some profit differ from the profit from other agents to stay some profit to the Islamic bank. Some central banks have investment deposited in the Islamic banks at some countries including Bangladesh and Mauritania.
d) The lack of benefit of the Islamic banks from the rediscount where this tool interferes with the nature of the Islamic bank works because they are from the usury that is forbidden in Islam. Some researchers at the Islamic banks suggested that to cancel the price of the rediscount rate where it means the controlling of introducing the money. Thus, the variable which through we can implement monetary policy in the Islamic economic is the money supply (Shawish, 2002: 7).
e) The opposes of the central banks to conducting the opening markets operations with the nature of the Islamic banks works because the government bonds are exporting in the price of the interest and some researchers at the Islamic banks see that the central bank use the bonds of profitability and borrowing which is legitimately possible instead of the bonds (Al–Amaydeh, 1991: 30).
f) The rate of capital to the deposits applied on the Islamic banks as applied on the traditional banks. While, the copyrights\ the total of assess is relatively high in the Islamic banks as compared with the traditional banks because of the increase of participations and precautions. So, some Islamic researchers see that the rate of the capitals to the deposits in the Islamic banks must be different than the traditional banks (Monem, 1996: 116).

g) The central banks depend in applying the financial penalties and fines such as the lack of mandatory cash reserve on using the price of the interest and this collides explicitly with the concept of proscription to deal with the interest in the Islamic banks and some researchers at the Islamic economic see that these fines and penalties be severed (which means determined amount of money) (Sartawi, 2005: 20).

1.14. The Relationship of the Islamic Bank with the Central Bank

There are many relationships betwen the Islamic and central banks which can be summerized as bellow (Sartawi, 2005: 20):

a) Both banks will be subject to the provisions of Islamic laws in it deals and which case the relationship is integration relationship as the case in the countries that transformed their banks into Islamic banks such as Pakistan, Iran and KSA.
b) The central banks must issue special laws that compatible with the nature of the Islamic banks which enable the Islamic bank to achieve its goals and avoid the falling in the legitimacy caveats such as usury and the countries that followed this concept is Turkey and UAE.
c) The Islamic bank must be subject to the control of the traditional central bank which deal with usury and which their relationship is just abide the central bank instructions by the Islamic bank that associated with deposit and withdraw the foreign currencies and deposit specific amount from its cash deposits to reserve the rights of the contributors and investors without taking the benefits of these deposits because they are usury that are forbidden in Islam, unlike the traditional commercial banks that take interests for their deposits at the central bank with the determination of a cap on the total of the loans that given by any bank in specific period without differentiation between the Islam and commercial banks despite of what the Islamic banks provide is not considered a loan but it is investment and participation in the profit and loss. In addition to the inspection that is done by the central bank and control the Islamic banks by sending envoys to make unannounced inspectional visits to ensure the extent of matching the

provided data by the Islamic bank with the records and restrictions that it saves (Shabbir, 2000: 372: - 375).

CHAPTER TWO

HISTORY AND EVALUATION OF ISLAMIC BANKS IN SOME COUNTRIES AROUND THE WORLD

In company with the discussions made on interest free economy and finance in the world, first interest free banks were founded in 1950's. Interest free banking started to be adopted in international area in 1970's, Islamic Development Bank (IDB) was established and the banks got started to be opened in United Arab Emirates (UAE), Kuwait, Bahrain, Egypt, Saudi Arabia, Sudan. The number of the banks opened in the counties like Malesia, Bangladesh increased in 1980's and Turkey and Iran were also involved in interest free banking system. Shares of the countries in asset value of interest free banking as of end of 2014 was around 29% for Iran, 24% for Saudi Arabia, 15% for Malesia and 10% for UAE. The share of Turkey was about 6%.

The number of interest free banking in counties are: Malesia, 38, Indonesia, 33, Bahrain, 35, Iran, 31, Bangladesh, 22, UAE, 22, Saudi Arabia, 16, Kuwait, 9, Qatar, 8, and Turkey has taken its place in the sector with 6 interest free banks. Interest free finance system has been continuing its growth at a fast pace in the world. It is calculated that the total size of the global interest free finance system at which 1.143 companies have been operating as of 2015 is around 2 trillion USD Dollars and with a double –digit growth rate, it will reach a volume of 3.2 trillion USD Dollars in 2020. On the other hand, the penetration rate of the interest free banking which represents about 1.3 % of size of assets of global commercial banking (assets of global interest free finance system) is around 2%. Considering distribution of assets, total assets of interest free banking is around 1.346 billion USD Dollars (74%), total value of issuance of Sukuk is around 295 billion USD Dollars (16%). Total value of interest free funds become 55,8 billion USD Dollars (3%), sum of the assets subject to Takaful transactions, 33,4 billion USD Dollars (2%), sum of asset value of other financial institutions, 83,9 billion USD Dollars (5%). Since interest free finance system is based on real trade and takes risk sharing as a basis, it strengthens the system and enhances its stability against crises. Likewise, it was observed after global finance crisis 2008 that interest free banking was influenced less than conventional banking. Reliance of the system on being interest free and structuring based on a real asset constitutes its own power at the same time. It is estimated that interest free banking assets of 6 countries to which Turkey is also included (Turkey, Qatar, Saudi Arabia, United Arab Emirates (UAE), Malaysia, and Indonesia) and Kuwait, Bahrain and Pakistan exceed 920 billion USD Dollars in 2015. This amount stands for 93% of interest free finance assets. Approximate shares of interest free banks in banking sector are: Saudi Arabia, 36%, Malesia, 17%, UAE, 16%, Kuwait, 11%, Qatar, 9%, Turkey, 5%, Indonesia, 3%, Bahrain, 2%, Pakistan 1%.

At this section, we will give a general overview about the evolution of Islamic banks in some countries and the amount of distribution of these banks in the general economy of these countries starting from Turkey to other Islamic countries.

2.1. The Malaysian System

Malaysia is considered one of the most important Islamic states in the eastern Asia where this country is able in the last four decades to achieve great jumps in human and economic development and it became the first industrial country in the world through the expanding in the industry sector and open wide fields in foreign investment and find great opportunities to enhance the level of income for individual. It is succeeded to fix the poverty, literacy and unemployment.

The rapid economic development for Malaysia is gained to be within the first industrial countries in the world where Malaysia is considered one of the most Islamic countries that interest in the field of Islamic banking. The most important factors that helped Malaysia is the political desire and governmental support where the government supported the Islamic financial system greatly at all the political, financial and legal sides. Also, governmental institutions are crated that support this system and support its development and spread. There are many factors are emerged and motivated the Malaysian government to work on adopting the Islamic finance in the country and the most important of those factors are the events appeared in the late of 1969. This experiment is found high governmental support which made this experiment one of the most successful experiment that merged between the traditional and governmental Islamic system (Parveen, Zadeh, Ahmed, 2015: 61-66).

At this section we will clarify in details the islamic banking system in Malaysia and the amount of its effect in the general economy in details way.

2.1.1. Islamic Banking in Malaysia

Depending on the Malaysian Islamic banking system which is established 1983, the Islamic banking is comprehensive system depending on the value and aim to respect and promote the physical and moral entertainment at the individuals and society in general (Yahya et al., 2012: 48-62).

Bank Islam Malaysia Berhad (BIMB) is the first bank in Malaysia and this bank has been established in 1983. While Islamic inter-bank Money Market has been created in 1994 and Bank Muamalat Malaysia Berhad (BMMB) has been established in 1999. This system has been inserted in their business under the supervision and guidelines of the Malaysian Central Bank. Moreover, Tabung Haji Malaysia delivers its services to the customers especially the services to the people who aim to go to Mecca to fulfill their needs. So, it collects and invests their savings according to the Islamic rules to be used in travelling and accommodation (Yusoff and Wilson, 2005: 31-41). Therefore, Tabung Haji Malaysia is considered a unique financial institution. The Malaysian Islamic banks in addition to the traditional banks provide Islamic counters to the demands and savings within the concept of the custody (wadīʿah) and investment deposit accounts as profit sharing (muḍārabah). Furthermore, the Islamic banks are not allowed to practice the business in the form of long-term and short-term securities associate with interest stocks and debts. According to Bank Negara Malaysia (BNM), the total assets of the Islamic banks is amounted about 65.6 billion America dollars with annual average growth amounted about 18 to 20 percent annually. Bank Negara Malaysia (BNM) sees that the Islamic banking in Malaysia has higher criteria for the investments and lead to enhance the accountability and reduce the risks. According to the current possibilities, the Malaysian Islamic banks are considered in the top of the Islamic banking system soon. Table 1 shows the descriptive statistics to the Islamic banks in Malaysia.

Table 1: Descriptive Statistics of the Islamic Banks.

	Volume of Loans (Billions)	Volume of Deposits (Billions)	Volatility of Loans %	Volatility of Deposits %	ROE %	ROA %
Mean	51.77	66.576	10.502	14.07	9.04	0.63
Median	55.92	71.713	7.542	10.98	8.23	0.58
Maximum	77.73	92.085	28.267	29.44	29.53	1.71
Minimum	16.35	26.234	1.291	3.25	4.87	1.24

According to its importance and sensitivity, the performance of the banking sector is interested by the beneficiaries including the depositors and investors and the managements of banks, governments and organizational institutions, researchers and economists who wish to evaluate the financial situations and economy health. The approximating results to the probability and performance of the bank is a sign to the investors and depositors to take their decisions for the investment or withdrawal their money from the banks. As well as, it works as a reaction to the mangers of banks in taking their decisions by continuing or change the current operations or correct the weakness points or follow the opportunities. In fact, banks may face damages which cannot be fixed if the mangers of the banks do not have knowledge by the important factors in the banking sector and the size of their effect on the performance of banks. Due demands and deferred loans because of the unstable investments and borrowers with creditworthiness and less can affect negatively on the specialization of banks on the resources and finance (Yahya et al., 2012: 48-62).

2.1.2. Issues Related to the Malaysian Islamic Financial System

At this section, we will focus on issues related to Malaysian Islamic banking system which need into correctional procedures and some of these factors include the following:

a) The seriousness extent of the financial institutions in achieving their goals.
b) Commitment with Islamic sharia concepts.
c) The general acceptance to the products and services.

2.1.2.1. The Fulfillment of Objectives

Khan (1983) proposed that the Islamic financial institutions are proposed to stimulate, substitute, and develop banking services and products depending on the concept of Islam. As well as, Islamic banks are liable to promote the creation of investment companies or other business insitutions if their goals are not prohibited by Islam (Khan, 1983: 259-257). The main concept of Islamic banking is prevention of interest in the whole transactions, and the requirement that business and trade activities depending on fair and legitimate profit. Islamic banks are obligatory to recompense zakat (alms tax) and to develop an environment favorable to society. Correspondingly, Ali (1988) supposed that an Islamic financial system cannot be presented simply by removing riba but also needs to adopt Islamic conepts of social justice and the introduction of laws, observes, procedures and instruments reassuring of justice, fairness, and justice (Ali, 1988: 3-13).

Thus, it is not expected that all the Islamic financial institutions have the same goals and philosophy which enjoy by the other commercial institutions. Their goals and philosophy must keep pace with the traditions. So, while the traditional commercial entities achieve their goals, the Islamic banks must achieve the balance between the profit and ethical values. The commitment of Islamic banks by their ethical goals is not shown by only the statement of the company and its goals but it also can be achieved by conducting their business. Many of Islamic banks such as Islamic Bank Bangladesh Limited (IBBL), Jordan Islamic Bank (JIB), and Bank Muamalat Indonesia (BMI) promote effectively to the social welfare where IBBL has succeeded in their sought on providing a directional banking system towards the entertainment and in achieving the economic justice by creating activities aim to help the deprived on increasing their incomes and create work opportunities for young people. The activities of social welfare through special authority of the Islamic bank institution. At the end of 1998, the institution created two modern hospitals where one of them in Dhaka and the other at Rajshahi, services center, and selling house in addition to many other projects for the social and economic development of the country. As well as, the institution established two types of training institutes and professional institution for unemployed youth and a college which provide the religious and ethical education that keep pace with the goal represented in raising the economic level of poor. The institution created a center for retail where the community can reach to the products which produced by the poor women. Moreover, the institution keep money to help the victims of floods and the victims of other disasters as the case in the Jordanian Islamic bank where it is specialized a part of its profits to be given to the Jordanian universities and scientific research and professional training.

The Malaysian Islamic institutions differ in the case of Bank Islam Malaysia Berhad (BIMB), where their commercial goals and social welfare are used as an indicator on their ethical commitments. The goal behind the establishment of BIMB was to provide the banking services and facilities according to the Islamic and Muslims concepts. Islamic concepts mean that those belong to Islamic rules were performing commercial transactions associate with banking and financial issues. The efforts of the bank is provided to deliver the facilities and banking services in the framework of its duties and ability on continuous growth and expand (BIMB, 1985). The current goals of BIMB are more focused and reflect the current direction and the philosophy of the senior management. Moroever, these goals can be summerized as follow:

a) Provide their customers by the facilities and Islamic banking services with highest possible quality;
b) Preserve the feasibility and level of profit to keep the growth;
c) Develop and promote efficient management system;
d) Develop a promoted work power which will be anchored by the suitable work ethics and fully committed with the bank and efficient service;
e) Continuously seeks to protect the interests of the contributors;
f) It must be aware with its responsibilities and duties as Islamic citizen.

During the 15 years of its creation, BIMB accomplished many of the previous goals. BIMB bank could not able to provide the same extent which was used by the Islamic banks. As well as, BIMB was used for the first time in 1999 in Bangladesh, Jordan and Indonesia. Despite that the BIMB has participated in many initiatives in order to fulfill its ethical commitments, but the most important issue is to pay the Islamic tax (Zakat) regularly. At the end of the financial year 1998-1999 for instance, a total of $315,500 had been paid in. Obviously, to be known as institutions that uphold Islamic business ideologies, it will be suitable for Islamic banks in Malaysia vigorously to involve in social welfare projects.

2.1.3. The Use of Sharīca Principles

The Sharia principles for the Islamic banking products can be classified widely into four categories:

a) Divide the profit and lost;
b) The charges or fee bases;
c) Free services;
d) Ancillary concepts.

In spite of that the dependence of concpets to determine how the Islamic banks practice their operations but most of scientists stated that they belong into two groups where the first one is strong Islamic and the second one is weak Islamic. The Islamic concepts can be considered strong if they commit with Islamic goals in terms of shape and contents. While the terms weak Islamic refers to the complementary of contribution for this concept in achieving goals of Islamic economy. Therefore, the concepts only which can participate in the risks between the providers and users of money can be considered high Islamic. The Islamic scientists look into two concepts where the first one is speculation and the second one is Musharakah as they are considered Islamic. The rest of concepts are recommended only in the cases where it is not possible to divide the income risks (Mirakhor, 1987: 15-35).

Since the early date of the modern Islamic banking system, the researchers recommended that the the Islamic banks must apply the share of profits and lost for each of deposits and withdrawal. While these concepts are used widely in taking deposits. However, its application in the financing was very little. The Islamic banks prefer to deal on fees based because of the simplicity and less of risks and the stable average of income which previously determined. Also, its compatibility with the based banking situation with the traditional focus on the creditworthiness and the relationship between the creditors and debtors and it looks like that the transactions based on fees open the door in front of interest (Ahmed et. al, 1983: 259- 276).

It is clear that the resistance in financing the share of profits and losses by the management of Islamic banks is the total number to the amount of money that directed to these activities. In the case of Dubai Islamic Bank, for example, in 1998 the finance which committed by the concept of profit and loss share was 10% only from the total financing. Similarly, the corresponding numbers to the Jordanian Islamic bank and Qatar Islamic bank were 3% and 4% only. As the other Islamic banks, Bank Islam Malaysia Berhad prefer the use of fees in the financing activities. In 1988, there was only 1% from the total modern finance was Murabaha and Musharakah. By 1993, the figure had increased to 2%, and at the end of financial year 1999 the figure gone back to 1%. After more than 15 years of existence is time for both Islamic banks in Malaysia and in other countries not to be overly dependent on fee-based financing. New strategies must be implemented to increase adherence to the profit-and-loss sharing principle.

The terminology used for these ethics can be baffling. Malaysia, for instance, is the only country where Arabic words are used for all the Sharia concepts governing its Islamic banking operations. Other countries preserve Arabic words for definite ideologies only, using the vernacular.

2.1.4. The Legality of the Principles

Although Malaysia is considered a successful Muslim country in promoting the Islamic banking in order to equivalent with traditional banking services, the scientists in other countries doubt in the legitimacy of Sharia concepts which used in their systems. One of the field which expose into extensive criticisms is issuing and trading invoices and Islamic bonds. The accepted bill has been accepted without interests for the first time in 1991 with the equation of Islamic bonds a foothold in 1992. It looks like the Islamic law project that accepted in the banking procedures which used in the traditional banking business to facilitate the local and international commerce. Nevertheless, the entering of Islamic bonds is considered a help to the organizations of companies to get benefit from money of the capitals. The standards of these securities can be summarized as follow (Al-Qaradawi, 1997: 18-22):

a) The exiting of ownerships;
b) Securitization;
c) Issuing the securities;

In case of Islamic bills, for example, the facilitations are provided only for agents which can provide an evidence on the participation in any of purchase processes or selling. When submitting evidences such as the commercial documents and other processes, a unique or multiple Islamic securities will be issued drawn on bank/purchaser for payment at maturity. The accepting/drawing bank receives a commission. In the case of bayc al-dayn or debt trading, this principle is widely used not only in the trading of Islamic bills but also in Islamic bonds. The certificate known as ‘shahdah al-dayn’ is considered ‘al-mal’ or property to qualify as an object of sale. Therefore, the holder has the right to resell in the secondary market using the bayc al-dayn principle. Malaysian scholars strongly believe that this principle is allowable in Islam, and that Islamic bonds may be sold to third parties for cash and at a lower price.

2.1.5. Public Acceptance

Since its provision, the Islamic banking products are accepted in good way by the Malaysians and this is reflected in increasing the total deposits and loans based on Islamic concepts which inserted by Muslims and non-Muslims. In case of BIMB banks for example, in the end of July 1984 (first year of selling), the total deposits and loans amounted 241 million Malaysian Ringgit and 162 million Malaysian Ringgit respectively. By the end of 1994 (the 10th year of operations) deposits totaled 2548 million Malaysian Ringgit, and loans 977 million Malaysian Ringgit. The corresponding figures for the financial year 1999 were 5,617 million Malaysian Ringgit and 3,404 Malaysian Ringgit.

Public support of the Islamic banking system is also reflected in the use of Islamic banking products offered by conventional financial institutions. In 1994, the first year selected commercial banks were allowed to introduce Islamic deposit facilities, a total of 1,463 million Malaysian Ringgit was collected in deposits. This figure includes deposits in current accounts (166 million Malaysian Ringgit), savings deposits (1,146 million Malaysian Ringgit), and investment deposit facilities (151 million Malaysian Ringgit). Since then, these three types of Islamic deposits have been receiving continuous support from the public. At end 1999, total deposits in commercial banks had increased to 2,744 million Malaysian Ringgit. The figure for current accounts was 3,954 million Malaysian Ringgit, and 7,469 million Malaysian Ringgit and 1,321 million Malaysian Ringgit for savings and investment accounts respectively (Haron and Ahmad, 2000: 155-163).

2.2. Saudi Arabia System

The baking and finance which compatible with Islamic rules are witnessed great development in Saudi Arabia during the last two decades which ensure the volume of financing with Islamic formulas including demands on Islamic products and other investment products. For example, the volume of finance that compatible with Islamic formulas configure 60% from the total financing volume which equals to 456 billion riyals at the end of July of the last year. In terms of investment box, the ratio of invested money is amounted more than 77 percent. All the Islamic banking in Saudi are expanded in the provision of banking services which compatible with Islamic rules by engorgement and support from Saudi currency institutions (SAMA) wh9ch fulfill the needs of agents for this type of banking services. Some banks provide their services and products through branches which specialized and transformed wholly to provide Islamic banking service where other provide through determined units. The success factors of Islamic banks in Saudi Arabia are many including the commitment with legitimate rules associate with structuring products and design. These efforts helped to develop the Islamic finance in the kingdom without capturing the nature of banks or the technical flexibility which needed by the financial markets in the kingdom. However, as the other type of business they face many challenges including finding new opportunities for investments and invent new products and promote the abilities of human resources in all fields including the field of managing the finance (Hafez, 2018: 5-7). The Islamic banking system in Saudi Arabia will be summarized at this section in details.

2.2.1. Background on Islamic Banking in Saudi Arabia

There are two main regulatory organizations which oversee and supervise the activities of banking and financial in the Kingdom:

2.2.1.1. The Saudi Arabian Monetary Agency

Saudi Arabian Monetary Agency (SAMA) is established in 1952 and its main role is to work as a central bank to the government. Its skills include issuing the national currency, supervise the commercial banks and manage the country reserves of the foreign currency, perform the monetary policy and promote the growth of the financial system and its safety. From the institutional side, the Sharia monitoring has not been determined within its responsibilities (Asaad, 2007: 8-12).

2.2.1.2. The Capital Markets Authority

In fifteen years earlier and exactly in 2003, the development needs of the industry and its development required the creation of a separate entity which focus on the capital and investment markets. Thus, the Capital Markets Authority has been created. The CMA’s responsibilities consisited monitoring publicly traded organizations, ensure the transparency, the guideline and progress to issue securities and protect investors from unfair market observes. Again, no Shariah supervisory duties have been assigned to the CMA.

2.2.2. Factors Behind The Expansion Of Islamic Banking in Saudi Arabia

Through the background mentioned above about organizing the financial industry in the Kingdom of Saudi Arabia, this is come to the mind by one question which is how the Islamic direction is distributed and then the industry in the kingdom? There are three main factors which were in the beginning behind the direction of Islamic banking in Kingdom of Saudi Arabia as follow (Asaad, 2007: 8-12):

a) Effect from another Islamic countries.
b) The progress in the Islamic financial engineering across the world.
c) Increase the local and international demands of the investors.

In later time, the Islamic banking became the base for high sample of consumers and it became a basic condition to practice business in the retail commerce at this industry.

2.2.3. History of Islamic Banks in the Region and in Saudi Arabia

The beginning was at the fiftieth when the foreign colonialism has entered to most of the Islamic countries banking institutions. Nevertheless, the "Fuqaha'a" (Shariah scholars) deal carefully with banks where their legitimacy make doubts. Since that time, there were effective sought started to establish Islamic banks. In 1963, the inventive struggle headed by Ahmad ElNajjar in Egypt who took the form of savings bank based on profit sharing. This experiment continued until 1967 by which time there were nine similar banks in the country. The 1970s observed the creation of a number of Islamic banks in the Middle East including Dubai Islamic Bank (l975), Faisal Islamic Bank of Sudan (l977), and the Bahrain Islamic Bank (l979). Nevertheless, many people were still inexact about the legality of Islamic banking state that continued through the 1980s.

In 1978, Al Rajhi Investment Company for investment has been established in kingdom of Saudi Arabia to be first Islamic financial institution which provide the currency exchange and transfer money into large sample of people including the local and foreign people who live in the country. At the late of eighties of the last century, the Islamic banking image responded to the other banks in the kingdom such as National Commercial Bank (NCB) but because of the total structural clearance, the thought is stayed just a thought and at the beginning of twentieth, the Islamic banking became a basic figure in the kingdom of Saudi Arabia where there two from ten commercial banks are Islamic banks which provide its different services to the people.

2.2.4. The Evolution of Islamic Financial Products in Saudi Arabia

In 1985, Al-Rajhi Investment Company is unmoving a foreign exchange supplier. First introduced Islamic financing through the operations of Murabaha. Having been based in the Central region of Saudi Arabia, where a heavy Islamic present was founding, Al-Rajhi rapidly increased standing as a leading Islamic financial services supplier in Saudi Arabia. In 1987, NCB presented its first Islamic mutual fund (International Trade Fund) depending on Murabaha transactions and promote aided by attractive interest ratio levels at these times.

In the Mid 1990s, Payroll disbursement started to be transported to the national workforce bank accounts national, a growth that improved financing processes and decreased default risk. Temporarily, NCB developed the first Shariah-compliance equity rules, an innovation that was later accepted and adapted by Index providers abroad. During the period, NCB also launched the 1st Shariah-compliant global equity fund with assets nearing USD 300 million today (Asaad, 2007, 8-12).

2.2.5. Recent Performance of Islamic Banks in Saudi Arabia

According to formal classifications, we can say that Kingdom Saudi Arabia is the largest economy in the Gulf Collaboration Council (GCC). It seems that the basic strong performance of the Islamic banks is continued during 2013. The accurate results for 2013 show increased directions for the main factors such as generate incomes and the growth of assets. These indicators are necessary to promote the regional economic growth. As well as, the newly published reports by Fitch, Moody’s, Standard & Poor’s (S&P) and other global classifications agencies ensure on the stable view to the Saudi banking system. The role of monitoring efficient by organizing the authorities (SAMA, CMA, IOB etc), perfect effective environment, strong operative effectiveness, sound funding dynamics, solid deposit base, strong loss-absorption capability and sustained growth in business activity are prominent topographies of the Saudi Arabian banking system, which are together esteemed as ‘stable’ by international rating agencies. Again Samba Financial Group is comprised between the world’s 50 safest banks.

Al-Rajhi and Riyad Banks have been qualified to be inserted in the list but they did not come in the beginning because of the summation of their assets. At the same time, Al-Rajhi bank has guaranteed the award of the best Islamic financial institution. Al-Rajhi Bank is considered the biggest Islamic bank in the world and it is proud by the largest branches network in Kingdom Saudi Arabia. Most of Saudi banks are considered the safest banks in the Middle East and North Africa. Nevertheless, Saudi banks promoted their financial situation that showed characterize performance during 2013 (El Qorchi, 2005: 2-4).

a) **Profitability**: The great Saudi banks are amounted about 12 banks and their achieved profits amounted about 37.6 SR in 2013 which reflect annual growth amounted about 7.18 percent. The banks of Al-Rajihi and National Commercial Bank (NCB) achieved 41 percent from the total income and the profitability of National Commercial Bank increased by 21.65 percent while the net income decreased by 5.67 percent. As well as, National Commercial Bank (NCB) enabled to preserve good level of income. At the end of 2013, their main line raised into 10 billion Riyal which reflect a growth amounted about 11.3 percent. The other good player at this sector is the Saudi Bank for investment where its net income amounted about 41.1 million SR which registered in 2012 and registered net income about 1.29 billion SR for 2013. The increase of income can be analyzed because of increasing the operating income and decrease the operating costs.
b) **Operating Income**: The operating profitability for all banks is enhanced significantly. Al- Rajhi Bank is stayed a main contributor where the total operating incomes amounted 14.1 billion Riyal for 2013 with annual increase amounted 0.94 percent. Moreover, Riyadh Bank is registered a total operating income amounted about more than 7 Billion Riyal for 2013. These values exceed the values registered for 2012 by 4.24 and 4.59 percent respectively. Based on growth, Al-Nama Bank stayed in the top and achieved operational profits amounted about 2.28 billion RS in 2013 with percentage increase as 24.81 percent than 1.8 billion SR in the previous years. While Saud İnvestment Bank came in the second degree where its assets amounted 2.22 billion SR and growth amounted 17.13 percent (Hasan and Dridi, 2010).
c) **Total assets**: The value of the twelve commercial banks are unified in exceptional form to reach into 1.87 billion riyal which registered growth amounted 9.33 percent than the number of previous year that amounted 1.71 billion riyals. All Saudi banks register a positive growth in the total assets where the National Commercial Bank (NCB) has the largest share from 377

million riyal (+9.27 percent) which about one-fifth of total value. In other hand, Saudi commercial bank of investment achieved based on percentage a total increase in the total assets by 36.28 percent in 2013 to reach 80.5 billion riyals compared with 59.07 billion riyal that registered in 2012.

d) **Deposits**: The deposits of twelve commercial banks amounted 1.46 billion riyals at the end of 2013 with increased value amounted about 10.16 percent compared with 1.32 billion Saudi riyals for 2012. This is back to the filling of deposits and expanding the branches networks through the banks. Then, the provision of main contributions in terms of deposits through the Saudi commercial banks that represent 300.6 billion riyals or about one-five of total deposits value. The deposits commercial national bank compared with 221.4 billion riyals and at the end of 2012 with increase amounted 4.6 percent. The Saudi bank of investment showed a notified growth in deposits by 41.15 percent in 2013 and reached to 57 billion riyals while Alinma Bank came with deposit 42.8 billion riyals and growth with percentage 32.75 percent in the second rank in terms of growth annually.

e) **Loans and advances**: Saudi banks continued the expanding of loans and this sector witnessed increase amounted about 12.41 percent in the loans and deposits and the total value amounted 131 billion riyals at the end of December 2013 exchange with about one billion riyals in the previous year. Commercial national bank represented a financing amounted about 187.7 billion riyals at the end of December 2013 with contribution about 17 percent of the total value. Saudi Investment Bank announced the total of financing the portfolio finance in 31 December 2013 with about 47.57 billion riyal which means with annual increase about 13.5 billion riyals or with percent of 39.7 (Lone et. al, 2013).

f) **Stock market**: In Saudi stock market, the banking sector continuing its raise since 2013 and the sector is supported the dealing that registered its highest level in five years. As well as, the sector indicator is achieved its highest level during five years in the last months of 2013 that exceeded the level of 18000 point. It is accumulated 3220 point or 22 percent during the year. Saudi stock indicator is achieved incomes amounted 22.5 percent during 2013 to close at 8.535.6 point. The Country Bank is exceeded the other banking issues where it is raised by 65% to 35 riyals at the end of

2013 followed by Saudi bank for investment and Netherlands-Saudi Bank by 58 percent and 54% respectively. Large number of investments continued their participation in speculation on stock prices and get benefit from the high incomes through the provision of cash. The total selling amounted 6.4 billion in dealing of 2013 (Lone et. al, 2013).

2.3. The Iranian System

In 1938 Iran decided to regulate its banking system completely to the Islamic system and it is unique system. Despite that the religious Islamic scientists in different parts of world say that the Islamic finance ban payment of interest while the Iranian Islamic banking are still deal with interest. As well as, they keep the accounting standards of traditional banks according to a study conducted by Pakistan central bank. The study concluded that all these issues refer to the faces of Islamic banking in Iran significantly differ than those of basic Islamic banking in different part of the world.

Accounting organizations standards of Islamic financial institutions are used widely in different part of the world, but they are not applied in Iran. For instance, in 2007 the organizational banned to deal with Islamic instruments by using Selm contracts and it is a type of sailing contracts where this contract is still common in the country. However, these differences make difficulties on Islamic and traditional banks to create relationships with Iranian banks and hold transactions at least in the beginning. There is Iranian banking expert that main problems appear in using the derivatives and they are two complex problems in any Islamic financial system and we have different curriculum in Iran. Nevertheless, there are evidences show that Iran started to develop new channels which facilitate the communication with foreign banks (Ashraf and Giashi, 2011: 2-3). At this section, we will analyze the the islamic banking system and Iran breiefly.

2.3.1. Regulatory Support

Central Bank of Iran is established in 1960 by the Iranian government and it is separated the whole banking central responsibilities from Bank Melli Iran and assigned them to the central bank which is created newly. The Central Bank of Iran is renamed to "the Central Bank of the Islamic Republic of Iran" directly after the Islamic revolution in 1979 and the collapsed of Iranian king. The central Bank of the Islamic Republic of Iran responsibilities have been determined in the law of monetary and banks in Iran. It must be mentioned that the whole banks in Iran are owned by the Iranian government.

According to the monetary and banking law, the central bank holds responsibilities of formulating the monetary and financial system and all the legislations related to flow of money inside and outside of the country. As well as, the central bank holds the responsibilities of return the Iranian and foreign currency and the transactions of foreign monetary. Moreover, it formulates the required rules to control gold dealings with the agreement of the Board of Ministers, formative the necessary guidelines, agreements and circulars appropriate to banks and credit institutions in the framework of the monetary and credit system of the country. In addition, Iranian Banks are worked under exacting Islamic concepts as the country's government mandates to follow the strict Islamic concepts. Thus, running a conventional banking network would be considered as against the fundamental teachings of Qur'an. It became obligatory for the Central Bank of Iran to set up an Islamic Banking law in tune with the commands of Qur'an following the Islamic revolution (Parveen, Zadeh, Syed, 2015: 61-62).

2.3.2. The Process of Islamization of the Banking System in Iran

The islamization of the banking system in Iran is passed two stages where the first stage started in 1979 until 1982 where at this stage the banking system is nationalized and reorganized. Nevertheless, the internal and external developments have not allowed the policy makers to establish suitable plan to Islamize the banking system. The second stage started in 1982 and continued until 1986 where at this stage, the free usury (without interest) is issued in 1983. This decision is entered the implementation phase in 20 of March 1984. The law is described 14 types of currencies applied on assets and allowed the banks to purchase debts tools that supported with real assets for one year. The Islamic banking system in Iran is enjoyed by the following characteristics (Hassani, 2010: 430-433):

2.3.2.1. Characteristics of Bank Liabilities

According to the usury system, the free banking services in Iran are basically include two types as follow: the current deposits and save deposits in gharz- al-hassanh state. This is similar to the traditional banks but it does not gain any income. The deposits of the current save such as deposits of demand or the current account in the traditional bank. In point of view of agents, this account is simply a mean to pay the transactions and payments. The other type of gharz-al-hassanh is the saving account where at this account the depositors provide unstable awards and monetary or moral bonuses. The other bonuses to this type of accounts that banks exempted the depositors from the payment of paying fees or transactions. The priority is given in using the banking facilities. Deposits of qharz al-hassanh are the main resources of qharz al- hassanh. The short-term and long-term investment deposits where these deposits differ in terms of time and the least time for short-term investment deposits is three months while the long-term investment deposits may take one, two, three, four and five years. It is not possible to guarantee any stable amount of money to the depositors. Practically, banks pay the profit of depositors temporarily based on quarterly subject to the final amendment at the end of financial year. Depositors can withdraw their money from the long-term investment deposits before finishing the agreement if they provided previously notification. At this case, the withdrawal will be based on profit and it is lower than the deposits and according to the time where the money are deposited. Withdrawal from short-term deposits can be implemented at any time without notification (Alam, 2001: 4-5).

2.3.2.2. Islamic Banking Product in Iran

The Islamic banking product in Iran can be summarized as follow (Mojtahed and Hassanzadeh, 2009: 2-3):

a) **Mudarabah:** The free usury banking system in Iran provides different means of operations to finance the contracts between banks and agents while the ways are as follow: speculation (share of profits) where the banks provide the capital for the commercial sector as a singular and for merchants who work in commerce and finance. According to the previous agreement, the profit will be divided at the end of the contract.

b) **Musharakah (partnership):** This law allows two different things for civil and legal partnership. The first one which is the civil partnership is determined partnership to the project for short and medium-term which is defined as it is a mix of capital from a bank or partner. The other form which is the legal partnership which is a multi-project for long-term. In case of the availability of part of contributors in modern partnership or purchase a part of stock-prices of companies.

c) **Direct Investment**: The banks can give guarantee to invest directly in any long-term economic activity. The direct investment potentials by the banks is existed only in the public sector through the creation of companies without legal partnership. The direct investment cannot be done in projects which may lead to produce the luxury goods. Moreover, it must look to the priorities of economic development of the country.

d) **Murabaha:** The banks have the ability to purchase raw materials, goods and other types of the company needs in industry, agriculture, exploitation and services and sale them again on short-term installment. The prices at these transactions cover the cost. In addition, they cover the profit according to determined systems and the banks are prevented to purchase the materials without determined job.

e) **Salaf (purchase with differed delivery):** Banks can purchase goods from the produced companies in order to provide the working capital. Therefore, instead of lending money, the bank purchase a part of future products in agreed price which must not exceed the price of the produced price at the contracting time.

f) **Ijarah be shart-e-tamlik (lease-purchase):** At this model of financing, the purchase of real estate or other assets which produced by companies or individuals and rent the assets for them. The price of the assets are determined based on the extra cost and the ownership is transferred to the renters at the end of contract.

g) **Jualah (transaction based on commission):** This project is implemented by the bank or agent to pay determined amount of money in exchange of service as determined in the contract. Jualah is considered one of short-term facilities which can be given to expand production, commercial activities and services. It is necessary to determine the service which must be implemented and fees which will be loaded at the time of contract (Nurul and Alam, 1997: 4-5).

2.4. Experiments of Islamic Banks in United States of America

During the last three decades and especially in the last few years, the Islamic financial institutions are witnessed a notified growth and developments and enhanced the available investment products to be compared with those provided by traditional financial institutions. This growth is caused in the establishment of many Islamic institutions in the United States by the creation of Islamic financial units which provide services compatible with Islamic Sharia for their Muslim agents. It led one bank to create subsidiary which completely dedicated for the Islamic financial services. Despite the continuous of challenges, it is clear that the partners in market are suitable for the task and dedicated for the investment of time and necessary materials to overcome these challenges. Through the efforts exempted the accounting authority for the Islamic financial institutions and international union of services and the readiness of western markets to solve the speculation issues and ability of creation of new products which compatible with Islamic sharia and increase the investments demands on these services, there is possibility to continue the growth in the markets (Tacy, 2006: 25).

2.5. Experiments of Islamic Banks in United Kingdom

Most of growth is Islamic finance in the United Kingdom is happened during the last five years. However, the existing of transaction compatible with Islamic Sharia in markets of London belong to the eighties. Murabaha Goods deals are used through London Stock Exchange with high quantities to provide the cash fir the Middle East institutions and other investors that promoted the development of wholesale market in United Kingdom. Nevertheless, this process has not helped the investors of high fortunes. These products were not complex in their structure and declined outside of the organizers. The Islamic retails products are appeared for the first time in UK in the nineties but with limited ratio. Some banks started in the

Middle East and south east of Asia by the provision of simple services such as real estate financing. However, this comparison is closed from its traditional equations in many states including the prices. Most of these products do not fall within the organizational framework if the consumers do not have the same protection which enjoy by the other consumers. For example, financial ombudsman service provides the exemption possibility from the exemption of the institution. The growth of sale by retail is still slow through the nineties and the first part of the current century.

Since that time, much has changed both in the wholesale and retail where the type of products are enhanced and became a large set of available products and more players entered the market. Currently, according to many companied in London including Islamic and non-Islamic as a global center with increasing importance for Islamic finance (Ainley, Mashayekhi, Rahman and Ravalia, 2007:

2.6. The Turkish System

At this section we will clarify in details the islamic banking system in Turkey and the amount of its effect in the general economy in details way.

2.6.1. Evolution of Islamic Finance in Turkey

On 25 February 1984, the Undersecretariat of Treasury and Foreign Trade issued details of the system with the communiques published by the Central Bank on 21 March 1984. As a result of various communiques and regulations issued later, the legal and legislative infrastructure of this system has been completed. Founded in 1985 in Turkey, Albaraka Turkish Finance House Inc. and Faisal Finans Kurumu A.Ş. They are the first institutions established according to Islamic banking principles. These are Kuveyt Türk Evkaf Finans Kurumu A.Ş. Established in 1991, Anadolu Finans Kurumu A.Ş. Founded in 1995, İhlas Finans Kurumu A.Ş. and Asya Finans Kurumu A.Ş. followed. In 2001, during the crisis in Turkey Ihlas Finance bankrupt and closed. The same year, the country inherited from the Group of Faisal Finance, Family Finance have taken the name and Turkey Finans Participation Bank was established this bank merged with Anadolu Finans in 2005. In 2014, the participation of the state-owned Ziraat started. Subsequently, Vakıf Participation Bank passed the activity.

2.6.1.1. Kuveyt Türk

Kuveyt Türk Bank institution has been established by the entrance of Kuwait financing house in Kuwait to the Turkish market in 1989. The bank started its activity as financing house in March of 1989 through the statement of the Turkish central bank in February 1989 and under the commercial name for Kuveyt Türk Company for institutional financing. It is started the provision of services in 1999 accoring to the banking law number 4389 beside the other financial institutions. In 2006, it is renamed as Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk) and it is still adopt the name of Kuveyt Türk and follow the following concepts since its creation: the efforts in the Islamic banking system, search in the field of investment, provide modern service for the business men, training its employees in order to increase their performance. The bank lives a happiness as it is able to perform quick services for the accounts owners and investors by the use of any of the modern means through its branches in the country. Kuveyt Türk delivers important contributions in developing the banking participation in turkey by its concept of companies and the invented products which provide to their customers and its extension outside of the country (Kuveyt Türk; https://www.kuveytturk.com.tr/en/about-us, 14.05.2018).

2.6.1.2. Albaraka Türk

Albarak participation bank is established in 1984 by increasing the banking business without interest in Turkey and started the work effectively in 1985 after its establishment under the supervision of capitals in the Middle East. AGB Group, Islamic Development Bank (IDB) and other industrial group that serve the Turkish economy for more than half a century continue the work in Turkey according to the bank law with number 5411. Starting from December 2017, the share of foreign partners is 65.87 percent and the share of local partners is 9 percent and the open share for public is 25.13 percent (Albaraka Türk; https://www.albaraka.com.tr/en/get-to-know-albaraka.aspx).

2.6.1.3. Türkiye Finans

Türkiye Finans Participation bank is considered one of the participated banks in Turkey which work with the strong capital structure since 2005 where the Contributor National Commercial Bank owns 67.03 percent from the share of this bank. Türkiye Finans Company is established in 2005 when Family Finans was providing participated banking services under the name of Finans Kurumu between 1985 and 2001 and Anadolu Finans which established in 1991 as the first private financing company in Turkey with full local capital. The bank achieved the identity of new and strong institution after this merging and bring new life to the participated banks which expanding with their targeted group. In 2008, the National Commercial Bank owned the share of most of the Türkiye Finans bank and the bank entered in a stage of transformation and development. National Commercial Bank is considered the first and largest bank in Kingdom Saudi Arabia in terms of investments in five countries and it is the main contributor with share of 67.03 percent stake of Türkiye Finans Participation Bank which is one of the leading players in the participation banking sector.

Türkiye Finans Participation Bank brings the experience and knowledge which enjoy by the National Commercial Bank which work since 1953 and aims to facilitate the banking operations for its agents by giving the priority to the satisfaction of its customers in its financial flag in 'Turkey. The task of Türkiye Finans is represented in making its agents feel safety. Therefore, he took a new initiative in 2013 in order to implement the changes and enhancement in the business processes by its special projects in experiencing the agents and the multi channels project strategy. During this new period, the bank enter in stronger growth path by promoting its use for experiences and products in addition to the techniques. Türkiye Finans Participation Bank is managed successfully based on new banks and provides products and services in the field of banking to the individuals with the strong service platform which consist of alterative distribution channels. Türkiye Finans Participation Bank will continue in providing its services, increasing strength and perverse its leadership position at this sector (Türkiye Finans; https://www.turkiyefinans.com.tr/en-us/about-us/about-ncb/Pages/about-turkiye-finans.aspx).

2.6.1.4. Ziraat Participation Bank

Ziraat Participation Bank, with a paid-in capital of 675.000.000 TL paid by the Turkish Treasury has been founded with the consent of the Banking Regulation and Supervision Agency (BDDK), dated October 14th, 2015 and No. 6046 that was published in the Official Magazine, dated October 15th, 2014 and No. 29146, and granted its license by the consent of the same Agency, dated May 14th, 2015 and No. 29355, that was distributed in the Official Gazette, dated May 12th, 2015 and No. 6302. Bank's capital was increased by 72.000.000 TL as published in the Official Gazette dated 24/05/2016, No. 9081 and the total paid-in capital has reached 1.250.000.000 TL. With their products that obey with the ideologies of contribution banking and their alternate delivery channels, we are always at the service of our customers. Ziraat Participation Bank, with its basic philosophy of listening to the customers under all circumstances and offering personalized solutions for their needs, operates not only for its customers and shareholders, but also for creating value for the society and all its stakeholders (Ziraat Participation; https://www.ziraatkatilim.com.tr/en/our-bank/Pages/about-us.aspx).

2.6.1.5. Vakıf Participation Bank

All of the capitals of Vakıf Participation are belonging to T.C. Prime Ministry General Directorate of Foundations.

2.6.2. Current Status of Islamic Finance in Banking Sector of Turkey

The table below shows the general structure of the Turkish banking sector. Turkey has a total of 51 banks can be seen from the data in the following table. Of these, 33 are Deposit Bank, 5 are Participation Bank and 13 are Investment Bank. The share of participation funds in total is 4.91%. It can be said that this ratio is lower than other countries with participation banking. The total asset size of the Participation Banks is 160.136 thousand Turkish Liras.

Table 2: Size of the Turkish Banking Sector (December 2017).

Banks	The Number of Banks	Assets		Funds collected		Funds Allocated	
		Million TL	Share (%)	Million TL	Share (%)	Million TL	Share (%)
Deposit Banks	33	2.922.680	89.71	1.613.839	93.87	1.905.940	88.83
Participation Banks	5	160.136	4.91	105.310	6.12	106.733	4.97
Development and Inv Banks	13	175.002	5.37	0	0	132.807	6.19
Total	51	3.257.819	100	1.719.149	100	2.145.480	100

Source: Participation Banks Association of Turkey, http://www.tkbb.org.tr/Presentations

In Table 2, the percent increase of the assets is given. Although participation banks are far behind deposit banks in terms of assets, the active increase rates are about 5 times higher than the active increase rates of deposit banks. In 2017, deposit banks increased their assets by 4.91%, while participation banks increased by about 21%.

Table 3: Asset Growth of Turkish Participation Banks.

Years	Participation banks	Growth (%)	Banking sector	Share in banking sector (%)
2007	19.435.082	41.55%	580.607.000	3.35%
2008	25.769.427	32.59%	731.640.000	3.52%
2009	33.628.038	30.59%	731.640.000	3.52
2010	43.339.000	28.88%	1.006.672.000	4.31%
2011	56.076.929	29.39%	1.214.711.000	4.61%
2012	70.279.000	25.33%	1.370.614.000	5.13%
2013	96.086.000	36.72%	1.732.413.000	5.55%
2014	104.319.000	8.56%	1.994.329.000	5.23%
2015	1.20.874.000	15.27%	2.357.453.000	5.10%
2016	1.32.874.000	10.50%	2.730.942.000	4.87%
2017	160.136.000	20.51%	3.257.819.000	4.91%

Source: Participation Banks Association of Turkey, http://www.tkbb.org.tr/Presentations

Table 4: The Growth of Funds Collected (Thousand TL).

Years	Participation Banks	Growth (%)	Banking sector	Share in banking sector (%)
2007	14.943.000	32.98%	371.927.000	4.02%
2008	19.210.00	28.56%	472.695.000	4.06%
2009	26.841.000	39.73%	522.415.000	5.14%
2010	33.828.000	26.03%	631.119.000	5.36%
2011	39.869.282	17.86%	707.510.000	5.64
2012	48.198.000	20.89%	783.888.000	6.15%
2013	61.495.000	27.59%	949.319.000	5.36%
2014	65.405.000	6.35%	1.056.679.000	6.19%
2015	74.362.000	13.70%	1.250.016.000	6.00%
2016	81.505.000	6.60%	1.459.269.000	5.58%
2017	105.310.000	29.20%	1.719.149.000	6.12%

Source: Participation Banks Association of Turkey, http://www.tkbb.org.tr/Presentations

The advantage of the participation banks in the collected fund figures is sinking. As of the end of 2017, the total funds of participation banks reached TL 105 billion and increased by 30%. However, in the face of this strong funding of the participation banks, the deposit banks have not had the opportunity to exhibit the same success. As of the end of 2017, the fund collection increase of deposit banks is around 6%. As can be understood from these data, although the Participation Banking sector keeps track of deposit banks, in fact the demand wind blows towards itself.

Table 5: Main Financial Figures of Participation Banks.

No	Description	31.12.2016	31.12.2017	Variation per to last year (%)
1	**Funds colected**	81.505	105.310	29.21%
	TL	48.313	57.494	19.00%
	FC	29.984	43.180	44.01%
	FC-METAL	3.208	4.636	44.51%
2	**Funds Allocated**	84.880	106.733	25.75%
3	**Total Assets**	132.874	160.136	20.52%
4	**Non-Performing Loans/Funds Allocated**	3.70%	3.20%	
5	**Number of Branch**	959	1032	7.61%
6	**Number of State**	14.465	15.029	3.90%

Source: Participation Banks Association of Turkey, http://www.tkbb.org.tr/Presentations

In this context, there is also the country's general participation banking sector data. As can be seen, the funds collected by the Participation Banks in 2017 amounted to 106 billion Turkish Liras with a 30% increase compared to the previous year. 19% of these funds are Turkish Lira- 44% Foreign Currency and the remaining are gold and other metals. The total assets of the participation banks reached to 160 billion liras with an increase of 20%, the total number of branches reached 1032 with an increase of 8% and the total number of employees reached to 15.029 with 4%.

Table 6: Key Financial Indicators of Participation Banks (TL, Thousand).

Financial Topics		Albaraka Türk		Kuveyt Türk		Türkiye Finans		Vakıf Katılım		Ziraat Katılım		Grand Total	Grand Total
		2017/Q4	2017-Q4/2016 (%)	2017/Q4	2017-Q4/2016 (%)	2017/Q4	2017-Q4/2016 (%)	2017/Q4	2017-Q4/2016 (%)	2017/Q4	2017-Q4/2016 (%)	2017-Q4	2016
FUNDS COLLECTED	TL	13,247,715	5.5	19,955,412	11.2	11,164,157	-5.8	6,827,057	204.6	6,345,946	68.0	57,540,287	48,364,290
	FC	12,062,125	13.8	19,901,988	42.6	10,866,339	17.9	3,261,357	310.9	3,678,649	97.9	49,770,458	36,428,146
	TOTAL	25,309,840	9.3	39,857,400	24.9	22,030,496	4.6	10,088,414	232.4	10,024,595	77.9	107,310,745	84,792,436
FUNDS ALLOCATED		24,680,290	11.2	37,923,358	27.3	26,071,453	-1.5	9,671,218	222.1	11,730,935	103.2	110,077,254	87,244,396
NON-PERFORMING LOANS		513,108	-2.7	47,183	-70.9	412,000	-23.3	3,179	9.7	16,753	151.9	992,223	1,236,466
NON-PERFORMING LOANS		4.9%	-	1.9%	-	5.4%	-	0.2%	-	0.3%	-	13	13
TOTAL ASSETS		36,229,077	10.3	57,123,095	17.8	39,080,897	0.7	13,210,145	1,407.3	14,350,143	80.3	159,993,357	128,971,335
SHAREHOLDERS EQUITY		2,481,506	8.9	4,591,151	17.4	4,060,598	10.9	1,107,885	26.4	1,403,681	83.6	13,644,821	11,495,710
NET PROFIT		237,093	9.0	673,991	24.4	375,360	26.7	138,132	626.4	158,902	418.1	1,583,478	1,105,497
NUMBER OF STAFF		3,899	2.2	5,749	2.9	3,767	-5.8	724	2,029.4	892	31.8	15,031	10,115
NUMBER OF BRANCHES		220	3.3	399	3.4	289	1.0	63	85.3	63	34.0	1,034	966

Source: Participation Banks Association of Turkey, http://www.tkbb.org.tr/Presentations

Table 6 shows in detail the size of assets and funding of five active participation of banks operating in Turkey. In terms of asset size, Turkey's largest participation bank in Turkey to Kuwait emerges. Total asset size is TL 57 billion. In terms of profitability, the most profitable participation bank is Kuveyt Türk Bank with 674 million Turkish Liras. When the evaluation is made as a percentage increase, the situation is different. As of the end of 2017, the Bank, which increased its assets the most, became the Vakıf Participation Bank in percentage. However, this is an increase due to the newly established bank. We can say that it is Ziraat Katılım who made the most increase afterwards.

2.6.3. Banking in Turkey: History and Evaluation

The history and emergence of banks in Turkey will be discussed and analyzed at this section. It is not be a solid supposition that banking is an action which depends highly on faith and dependence on the deposit custodians' kindness or the repayment of credit. This needs an appropriate supervision and laws under the social laws with suitable societal and habitual records. At these accounts the Scottish banking is known historically in finance and banking. The Empire of Ottoman not ever had such a track greatest in the finance and banking. Way can discuss that one of the reasons for the particularly immature banking services in the Empire of Ottoman was the solid response to a significant part of personal wealth construction: interest. It is not acceptable faithfully that to take interest in the borrow actions from the Muslim people in terms of the empire and financial services depend mainly on non-Muslims, typically Christians and Jews. Since patriotism developed a terminating trend for the Empire of Ottoman and several groups of the Empire chosen to announce individuality. The banks in Turkey and financial growth started to take its first phases as secularism was one of the key modules of the new Republic: interest was thus, they helped to be a part of personal prosperity formation. The money has invented in Asia Minor. Nevertheless, for one reason or another, the same reason is not clear in case of banking and financial services.

2.6.3.1. Banking and Finance System at a Glance

In the pre-historic periods, the unique place which was used to keep money are the temples because they represent the trust and reliance place. The first lending activity example in appeared in the 18th century BC in Babylon where the loans have been recorded in official way and Hammurabi's Code offered the first lawful base for simple banking action. The Lydians are the first people in the western world who created coppers in the 700 BC. At this invention, Asia Minor made the first development in banking. In 1100 AD, as Christianity extended in Europe and banking inventions in Genoa and round the Mediterranean area where strengthened international trade was perceived. Also, the building of Papal Banking has been created. In 1800 AD, Venice took over with a good security structure and with significant topographical location. In the same century, the standards of gold have been discovered and illustrative money performed in many countries including Sweden and England and the central banks have been created in parallel to national banks both public and private. The main reason behind the creation of central banks is not because the financial deficits of the kings which are not finished but the need to create a central for information exchange that support the banking system during the increased stress of the banking operations. Scottish banking through the Free Banking period is managed effectively in decreasing the predictability of central banks when there is a comprehensive reimbursement bank for the whole banks which owned by the entire banks to fund general trust (White, 1995: 1800-1845). Nevertheless, the central banks in many countries are assigned by specific tasks as represented by consider them the last resort to eliminate the financial risks. Therefore, the homogeny of the central banks on the banking operations have been increased from 1900 until the current time. When the central banks have been nationalized in all parts of the world, the standards of gold have been relaxed from time to another under good financial structures, lending and borrowing movement enlarged constantly. When the mon-bank system has been collapsed in 1980, collecting deposit system from savers to distributers to be invested have been increased and became “small” part of the entire particularly composite nature of huge financial conglomerates, with the help of ever aggregate globalization. The evolution of banks and finance will not be terminated soon. Due to the continuous increase of calculating power and reducing the cost of communications, more paradigm shifts can be predictable in terms of globalization of the payment systems comprising electronic money through developing areas of currency other than the Eurozone, sensitive unions and achievements between banks and financial service suppliers to increase effectiveness, increased recoupling and decoupling of activities and ever more “prearranged involvements” by collaborating central banks. It can be said that in the future, we will have one currency, one money and a unique banking system to everybody. With the availability of these conditions, the Turkish banking and finance road would be to adapt themselves to continuous raising challenges of the global banking and finance by the entire means, comprising the membership in the European Union.

2.6.3.2. Banking and Finance system of Ottoman Empire

In general, the Ottoman Empire are always accused to blame as they are missed the industrial revolution. The Ottoman Empire failed to create a capital base to implement the sustainable development and increase the welfare inside its borders despite its extend and its play to an international role at that time. The reason of this failure is different and varied where its ranges from the constant land loss because of strong stress from the nationalist activities within the Empire, to exhausted and unmotivated citizens due to the venality and negligence inside the Istanbul Palaces. Nevertheless, the focus must be directed to decrease the importance of the banks in achieving the sustainable welfare on the long-term. Kazgan (1997) presented a complete example of the illegal financial observes in the Empire through the take over the wealth from the rich when there was a shortage in public accounts and occasionally by taking lives of the rich with 'made-up' complaints. The signs of this mistakes are presented in the fact that commercial banking progress inside the Ottoman Empire was restricted to a couple of bankers established in a specific region in Istanbul called Galata. The banking services have not developed despite the existing and spread of these banks in different streets belong to the strict rules in managing the save led to the lack of emergence of these services. While the empire missed to catch up with the industrial revolution led to non-accumulate of the fortunes and it is restricted by the hands of Sultans to be used to finance the wars and construct the palaces and castle to be more beautiful without employing this fortune in the productivity and investment. It can be said that the Ottoman Sultans have not understand the importance of the banks and finance. The economy started to lose its competiveness advantages because of the lack of industrial revolution and the kingdoms started to compete with each other. Furthermore, the continuous wars have imposed a large financial cost and lead the licensed bankers to reduce the borrowing costs from other countries. The local wealth holders where motivated to lend the Sultans and this hat conveyed the bankers of Galata as the primary investigates in banking and finance. The licenses of the banks have been spread to facilitate the borrowing burden more from European capitals. The continuous wars in different parts of the empire created financial problems and generated negative borrowing requirement. The licenses of the banks were frequently given to foreign foreigners.

Some banks which operate at that period with the establishment years can be summarized below (Akgüç, 1989: 11-12).

a) 1845: Banque de Constantinople: it is considered the first Bank which created in the Ottoman Empire
b) 1856: Bank-ı Osmani
c) 1859: Ittihadi Mali
d) 1860: Türkiye Bankası
e) 1863: Bank-ı Osman-i Şahane: This bank is licensed as the Central Bank in the Ottoman Empire. It has been emereged from Bank-ı Osmani which has created by the French and British joint venture. Then, a new method in favour of national banks has been brought in and in 1863 Ziraat Bank was created with state capital.
f) 1868: Istanbul Emniyet Sandığı; it is charted the conventional but foreign banks established dual endeavors with by the local capital too.
g) 1869: Austria-Ottoman Bank
h) 1872: The Austria-Turkish Bank.

Coincidently, in 1881 Duyun-u Umumiye was recognized as a statement of the bankruptcy of the Ottoman Treasury and exterior control over public finances has been presented. Despite the Istanbul Bankası has been created in 1911, this was the end of finance and banking of Ottoman Empire. It must be mentioned that there was no banking at that time but there were only some financial laws including Murabaha agreement in 1887. Finally, the Ottoman Empire distributed the banking license only to facilitate and secure easier borrowing to the government. Despite using the incentives to be given to the national banks which have been used some banking activities in Anatolian metropolises including Aydın and Konya performed, the continuous wars increased the obstacles to form the capitals, and functional services where never the priority of these banks. The loss of lands and capitals led to delay the development into high degrees. The reduction of the lands and human capital led to fail the ottoman history in creating an economic environment for the financial development and the local and international conflicts led to not achieve a probable growth. The conflicts in different levels including the local and international conflicts led to prevent the potential growth to be gathered. The survival has gotten the priority in the political agenda. It might be discussed that the War of Independence has been funded with the Asia Minor Capital concealed from the central power.

2.6.3.3 Banking and Financial System in Turkey

The Ottoman Empire fall is configured many problems not only by losing many a large state with multi culture and huge lands which extended on wide area, but it forms a load on the Republic of Turkey which obtained the individuality at the last phases of the empire. With slight in the congenital human capital way and a very weighty outside the burden of debts transported from the Empire, the primary years of the early Turkish State were categorized by a potential lack for capital creation and without capital, these primary years were occupied by encounters to generate extra funds to pay the hereditary debt. The last instalment of the ottoman depts have been paid in 1950.

2.6.3.3.1 The First Decade

One of the most important decisions which have been taken is to provide money from the central bank of the empire for the Turkish Republic. Since the money at that time was supported by gold to specific extent, any extra financial pressures have been eradicated by allow the license of central banking to continue and generate a capital base for the Turkish Republic. This decision is considered a key decision which demonstrated itself to prevent the financial crisis during the first years. Possibly the possibly most complex time for banking in Turkey was accomplished most positively related to the following periods when the emergencies and pressure followed each other in nearly all time. The most characteristics feature of the later period in the Ottoman Empire is the financial underdevelopment. The absence of monetization controlled to the domination of a non-money immoral in the transactions and commerce efficiently denoting the presence of a swap economy. The announcement of the Turkish Republic gave priority to prevent the poverty and hunger.

As it considered a semi-closed economy which highly depend on agriculture, it has not inherited any carnal or humanoid capital by the ottomans but instead in inherited just debts, the absence of national central bank and with credit channeled mostly through the foreign banks with strong bases of capital and powers of credit constructed during a long time, there was no opportunity to the private banks to appear. At that period, the banking sphere is characterized by the existing of foreign banks with foreign capital and some local banks with solitary subdivisions. Due to the lack of the private capital, the priority to design the private organizations was not obstacle in front of the public sector to lead the finance and banking. The basic condition to achieve the welfare is by creating a financial system by injecting the public money. The national central bank is created 1930 and until that time there were only 22 small local and 13 large foreign banks with 419 branches. The more important motivation at the first decades of the young republic is towards the nationalization as a negative reaction on the foreign capital. Nevertheless, the foreign banks have not closed where they were able to provide cheap and long-term finance from a strong capital base. It was not problem to understand the finance of growth, trade and local banks significance which have been empowered for the regional improvement. Knowledge banking in the first years of the Republic, evading from financial crisis and even struggling the impacts of the United States Great Depression of 1929 with nearly perfect fiscal correction permitted the appearance of a varied private-public banking system that reduced the burden re-development and re-structuring financial. Due to the Great Depression, more than 20 domestic banks went bust between 1923 and 1932. For the purpose of supporting the national capital accretion, Turkiye Is Bankası has been licensed as a private bank exploited with definite motivations in 1924. In addition, it is completed the construction Ziraat Bank which aim to support the agriculture. It must be mentioned that these two banks are still active currently and they considered the leading banks in their areas. The two industrial banks of Turkey Sınai ve Maadin are established in 1925 for the purpose of supporting the manufacturing. In 1927 and another bank is created which is called as Emlak ve Eytam Bankası. After ten years from the meeting of the general assembly, the National Central Bank of Turkey is established. As an indicator to the liberal curriculum which followed between 1923 and 1932, five foreign banks are opened branches in Turkey (Görmez, 2008: 12-13).

2.6.3.3.2. The Second Decade: The Banking System Matures

The basic financial structure is completed at the beginning of the second decade by creating a central bank and public and private banks and the public banks are listed to increase the capitals. Also, there was a collaboration between the private and public sector to enable the country to the direction of achieving the social welfare. In addition, the sectoral banks have been created to give inducements for arranged regions of progress. For instance, the Sumer Banks has been created in 1933 to motivate the textiles sector development. Furthermore, there was the Eti Bank for the natural development and Municipal Bank for regional development. Also, Halk Bankası to permit credits to the enterprises with small and medium size and Deniz bank for the sea lines and maritime progress. In the second decade, the short-term loans were not permitted from the national central bank and the credits have been given to fund the sustainable development incomes without activating inflation. The modernization of the banking sector has been augmented with the support of the Deposit Insurance Law in 1933, tracked by the Banking Law in 1936. Nevertheless, the solid impacts of the Great Depression triggered decrease in the number of operate banks and subdivisions with lingering insolvencies of the single branch local banks. The republic of turkey lost its creator Mustafa Kemal Atatürk at the end of second decade which encountered the beginning of the Second World War started in Europe. The prospects have been decreased to the lowermost level due to both the internal and universal chaos and efforts to encounter the basic requirements and raise defense expenses took over from the significances of banks and finance. Generally, the lowest level of the financial development is witnessed at this period with conventional credit growth. Despite the support of the public sector to the industrial development, the banks and finance are lost their impetus in the end of the war.

2.6.3.3.3. Damaging Control and Post-War Gains

Throughout the Second World War, the scarce resource of Turkey was to direct to defense in spite of that it did not involve at the war and therefore, the banking and financial development is delayed. Also, the private sector resources were directed to control the loss and decrease the war effect in Europe on the country economy while the public-sector incomes have been used to provide the basic needs. The pillars which were followed during the forties were aimed to adjust the interest rate and the fixed discussion rate and the true interest price are positive. However, it is announced that there is a large decline in the currency price amounted about 113% in 1946 below the stable rate of exchange system and a license for foreign exchange setting were declared with the creation of the World Bank and the International Monetary Fund (IMF). The purpose of this step was to accomplish reasonable foreign rate of exchange before applying definite directions under Bretton Woods. The credit expansion and selective credits have been greatly controlled by many means for example license of investment with publicly-sponsored credits. The central bank of Turkey was the main source of credit because of the absence of financial deepening. The goal behind the investment of banks is to help the bank to combine with the young people which characterized by high average propensity of consumption, it was relatively difficult to increase the ratio of saving. In the second half of the 1940s, the minor banks which have low capitals have been missing quickly. The number of privet banks have been increased to reach to 30 banks and there was a new emerging trend for the fast growing private banks. For instance, many banks have been formed in 1946 including 1946 Yapı Kredi and Garanti, in 1948 Akbank, in 1953 Demirbank, in 1954 Sekerbank and Vakıfbank. Because of the control on the interest rate, there is explosion has happened to the number of branches and the non-competition price is occurred. In 1958, the private banks together established Turkish Bankers Association. There is a sharp change in the economic policies of development have been entered in the 1950s where it is directed from the nationalization towards the privatization and the liberal curriculum of development became the dominant curriculum. This change in growth is jumped after the political turmoil which occurred during the war. The welfare which has been gained is missing rapidly. Nevertheless, in the second half of the decade once a corrosion of economic correction led to increase and exciting central banking experimentations for instance the spreading of standby supplies as praises to finance government shortages with temporary loans of equal to 15% of the economical, became communal repetition. In addition, the government is followed policy to create the development by giving loans to specific sectors which configure importance to the state economic. Then, in 1958 the banking crisis is coming with devaluation. This devaluation is generated many problems including the bust of more than 10 banks and the combination is implemented to delay solutions to public banking problems. At this year, the banking law is reviewed. In 1960, the Banking Solvency Fund was put onward by the central bank to succeed corrupt obligations gathered by the reduction of generous economic policies of the 1950s (Görmez, 2008: 13-15).

2.6.3.3.4. Back to the Planned Economy: Can Banking and Finance Be Planned As Well

With growing concern and anxiety from the cold war in most parts of the world, Turkey is witnessed a period of the disorders and uncertainty which resulted by the event of the military coup in 1960. The new regime imposed a strategy which is based on substantially import substitution and reduced the liberal development strategies. Significance certificate deposits at the TCMB were a distinctive instance of how robust the response was alongside introductions. As well as, they created a general company for almost all the consumed products which brought the judge into a combined regime which was not completely generous and collective. The banking services developed basically the funding practice of “Five- Year Plans”, of which the first was applied between 1963 and 1967. Reaching to 1983, four plans have been implemented and not all of them have ben succeeded where the problem to implement these plans was the funding which was continuously rare. The heavy plans were constructed during five years of development. The new economic system at the first half of 1960s is succeeded in creating a sustainable development with low inflation levels and high development. Choosy credits of the Turkish central bank to intended speculation developments with special ratios and credit favorite to the public sector, particularly substantial agree-credits maintained robust development in the initial years. By the measured attention and rates of foreign exchange, the branches of banks converted a standard minus any rivalry stress and “holding banking” controlled the period stimulated by tax inducements.

Thus, the manufacturing corporations directed towards creating banks to finance their different investments where most deposits of financial system are disciplined to pre-planned investments. Limits nearby new banking licenses raised the value of working banks but public banks including the State Investment Bank and the State Tourism Bank have not faced any obstacles in starting their processes with the expectation that all these banks may produce robust sectoral growth in their region. It is interesting that the first foreign banks which is created in Turkey is established when the American-Turkish Foreign Trade Bank has been created. It is allowed for foreigners to open account of foreign exchange while the gap of savings has been filled by transmittals of workers.

At the start of the 1970s, the absence of financial invention, the struggle between liberalism and state planning, interest and the rate of foreign exchange controls categorized by heavy-handed planning and inventive central banking raised burden on maintainable development. Innovative solutions including the “convertible accounts”, that offered a right to generate an indexed asset on hard currencies and nationalized foreign exchange dangers added to the payment system crises cost through contingent liabilities. The planned development strategy based on replace the imports have been terminated by two oil crises. The crisis of balance of payment and competition of central bank on the deposits of hard currency comprising indexed or exchangeable bonds did not help to produce an appropriate environment for banking even if the Banking Law has been reviewed more than four times and the banks number declined since 59 to 44. The financial crises and repeated reduction stresses on the coinage reduced the essential for a re-structuring of banking and finance (Görmez, 2008: 15-17).

2.6.3.3.5 The Openness of Islamic Banks Led to Growth

The worst decades for the Turkish economic prospects occurred during the 1970s. The universal prices of oil surprises were misused and edition to the new demand was gentle and insufficient minus raised investments and proficient improvements of structurs. The queues were spread in the streets to obtain the consumption products and the value of the dollar has been increased because of the lack of foreign currency which caused by irregular of foreign exchange risk. The common saying which explains the difficulties of those periods is the “In need of 70 cents”. This difficult situation is resulted that the International Monetary Fund made a meeting in Paris to discuss the foreign debts crisis and re-structure them and announce an economic plan which announced in January 1980. It must be mentioned that the number of banks which operate in turkey at that time was 44 banks. The main goal of the new financial platform in finance and banking is to boost the heavily-regulated banking performs and jump-start a reasonable and open banking system depending on the financial services excellence. In July 1980, the ratios of interest site have been left to the market as liberalization strengthened. The exchange rate system has been enthused to the flexible achieved float in place of an immovable ratio system and foreign exchange ratios were publicized each day from May 1981 to putting an end to the occasionally unforeseen reductions. In the beginning the 1980s of the last century, the Turkish central bank determined the price of interest rate of the deposits while the interest rate on the loan have determined freely despite the high and instable rise ratios worn the capital competence rates of banks. Financial liberalization unlocked the doors for participants and bankers who equipped by deposits license and started to test the domination of banks in the financial system. Nevertheless, the absence of satisfactory management and rule coupled with Ponzi style games produced a systemic risk and there was the crises of Bankers' and confidence loss of in 1983. The competition was not free of risks and banks including Workers Credit Bank, Istanbul Bank, Hisarbank, and Ortadogu Iktisat Bank, that depended on those bankers all went bust. Also, the list of bust banks followed by Bagbank in 1984. The lesson which have been learned from the failures of bank was that wanting suitable guideline and management in order to care a strong capital base, financial alliance and inducements for capital invasions can top to disastrous results opposite to financial expanding. Therefore, the law of banks has been reviewed again in 1985 to correct the insufficiencies that led to the crisis of 1983. At the second half of 1980s, the Turkish central bank is issued another decision for banking and finance which is the decision of conducting the open market operations. In most of the time, this decision is considered a critical decision because the exchange rate and interest rate set by command and credit distribution committees were complicated in numerous central banking decisions. This step-in spite of its considering that it is far from the independency of the central bank but it is configured an important step towards the market economy which allow the determination of marketing base. This decision was not lone was the obligatory decision for the appearance of money marketplaces were occupied, but it also the Capital Markets Board (in 1982) and the Istanbul Stock Exchange (in 1986) were shaped too. The Turkish Central Bank has designed the infrastructure of money market and machine of planned copying for Treasury bonds and bills has been advanced, which was surveyed by markets of interbank money, foreign exchange and banknote markets and even a gold market to put an end to unregistered gold ingresses and illegal gold commerce. The monetary policy which followed by the Turkish Central Bank in 1986 can be described as the best policy and it represents a transformation point for it.

The basic pillar of the bank in 1980 was placed an end to introduction replacement, the appearance of export-led development, financial liberalization, marketization, the provision of free enterprise and secluded possession accompanied by inducements for privatization. Nevertheless, good-will and an inspiring road-map were not adequate for success with supportable development and low increase. However, the financial and economic stability has been lost again in the second half of 1980s where the Töbank in 1987 and Caybank and Anadolu Bank in 1988 went bust. Loans to the Treasury of 15% of the yearly budget, nearly everyday reductions and deposits of foreign exchange certified not only for residents and workers abroad improved the dollarization speed (Görmez, 2008: 17-18).

2.6.3.3.6 The 1990s Banking System and Financial Crises

The marketization inducements of the 1980s produced an existent gap for high excellence monetary guideline and administration. Move from weighty formal participation in comparative price regulation to market-determined assessing ensued in financial correction as incomplete. The liberalization of capital account in 1990 added covered the image and led to an increase of exposed foreign conversation locations in the financial system only Turkey became a minor open budget. Delaying the removal of worker’s deposits at the Turkish Central bank, securitization and inducements for external appropriating difficult the administration of risks. A entire factors series added to the necessities of Treasury’s borrowing: administrating financial liberalization while overlooking current account shortages; validation a societies union contract with the European Union without junction aids; lack of structural improvements; waste of public banks; the absence of fiscal correction; aggregate the political pressures with intermittently initial elections; failed privatizations, the absence of social security improvements in a system that gave the opportunity for initial retirement at 38; and public infrastructure investment. In spite of that the banking sector has been opened for foreign competition, a great level of financial instability reserved the involvement rate of foreigners in the banking system less than 10%. Several stand-by agreements included the participation of the International Monetary Fund where most of them have not completed. The national economy situation has been evaluated from rating agencies came from outside of the country. Remarkably, the first rating level agreed still residues the highest ever. Particularly high real interest rates which increased from 20% caused from chronic misconduct of increase prospects and increased hot money weights. The worst thing is that the banking license lost its power and easy license is given with easy transportation operations for the ownership of the banks. During this period, the Turkish central bank was fighting to get on financial stability. The monetary policy is implemented by introducing new tools including discount window, open market operations, and liquidity controls. Obligatory transfers of hard currency from banks maintained a supple exchange rate system. The local borrowing system is placed the transparency in order to manage the debts. A growing need for foreign borrowing and a rising level of assets produced a dynamic replacement administration strategy with forced interferences in the foreign exchange markets. In 19990, obvious monetary pursuing demonstrated fairly positive in terms of accomplishing the objectives, but it failed to control increase and therefore advance credibility. The Turkish banking system at the middle of the 1990s needed into a nominal anchor about the inflation expectations. The absence of a reliable equilibrium programmer and the bad management of the general debt in addition to involvements in Turkish Central Bank procedures with implicit and explicit tools through 1993 produced financial pressure to cumulate and in 1994 an unhelpful banking crisis reverted once again. It must be mentioned that the number of banks which operate in Turkey at that period were 67 banks. Over, several banks including TYT Bank, Impexbank, Netbank, and Marbank, failed. Financial extending and progress once again stopped with real interest rates at levels of more than 50%. At that period, the capital and money markets gained importance and thus, the markets are focused. It is not amazing that under the conditions since while the debt to national revenue rate did not specify a risk, the period of the debts were less than six months. The debts are occurred at the expense of the financial system stability and therefore, there was a great burden on rolling over them. The international monetary fund announced a new economic stabilization program in April 1994. Moreover, The Turkish Central Banka Law has changed, and a road-map is inserted to reduce the rate of loans to the Treasury from 15% to 3% after 1998. One of the practical fault is to offer a 100 percent extensive warranty for the holders of deposit in May 1994. Furthermore, it can be said the development has been lost during the 1990s for the financial and banking development. In spite of the mistakes in the national policy, the international circumstances were not appropriate too. The attack of Kuwait and the first Iraq War, international chaos related with the Tekila, south-east Asian and Russian crisis and the breakdown of the European Exchange Rate Mechanism delayed the ability of local policies to flight of the malicious circle of financial pressure. The earthquake which happened in 1988 is caused negative rate of growth. Despite of the difficult circumstances, the banks tried to survive and make structural repairs in order to reduce the burden at these critical periods which continued to long time because of the weak of the political commitments. Though it became obvious that there was no easy way out, submissions including additional budgets just to take more loans from the Turkish Central Bank and accounts of Workers' Super foreign exchange with significance inducements to gather more deposits at the Turkish Central Bank were not assisting to rise reliability. In 1999, the daily management of the economic is ended where a new program is announced which is based on the stabilization program with the participation of the international monetary fund. It was successful program and designed perfectly which anchored increase prospects and reduced costs of borrowing for the Treasury for a period of time. Unfortunately, it failed in terms of the incomplete promises especially in the field of re-structure of the public sector and prioritization. However, the Turkish economy is witnessed a growth for the first time of his economy at the end of 1999. There was a complete obligation to the stability of price and a pre-announced exchange ratio prospect was reserved for six quarters with and leaving approach. Nevertheless, many modules of the program have been broken because of the absence of complete promise to privatization. The delays which do not end on the guaranteed structural improvements hard improved the risk of foreign exchange and with the first gathered pressure indication in November 2000, a pair of banks have been bust. The additional package of support from the international monetary fund was not adequate to inhibit a horribly negative financial crisis which happened in February 2001 where the program of 1999 has been collapsed unexpectedly. Bank runs produced through the systemic risk and unavoidable reduction cost more than 4% of GNP, because of the100 percent blanket assurance. There were more than ten banks went bankrupt, instant interest rates rose to more than 15000% (which may be a European history record) and the debt to revenue rate more than gathered to a level outside that preserved in the Maastricht Treaty. The program collapse cause many problems including the inadequacy of the funding which provided from the international monetary fund, the absence of a eventuality funding capability and a short-term vision with reverence to the sustainability of the debts. The failures of implementation including the delays in banking re-capitalization and privatization of public banks and the infinite debates on the program ownership just produced deeper injuries.

2.6.3.3.7. Banking in the 21st Century: A Way to the European Union

The previous crisis has finished the last long experience of this country with some form of accomplished exchange rates and free floating became inescapable. The risk of foreign exchange was at the last left to the markets which put in place inducements for accountable asset choices which may prevent extreme risk taking. The proposed program of the economic has many targets including prudent fiscal and monetary policies along with structural reforms such as the practicalities of an economy which would be well-placed on the track of continued low-inflationary development. The final goal of this program is to make the Turkish economy more able to withstand in front of shocks, fewer exposed to crises, more reasonable in revenue spreading, more beneficial to external and internal investment, and as a significance, to be better located to participate in the European structures. The new system was full of reforms comprising start the working with privatization program. Also, reliable activities have been taken in order to accept laws for real transformation and the transition to the economy of free market. A part of the program included the banks re-capitalization and construct the bank which own by the country. The priority is given to fix the public administration and improve the private sector role. As well as, a decision is taken to terminate the role of the government in the manufacturing and production and open the way to the private sector. The aim of price constancy had been lawfully emphasized with a change in the Turkish central bank Law forbidding loans to the Treasury and the buying of Treasury debt implements on the major market. Rising reliability with single digit increase goals in the medium-term and robust development to enjoy a chance window of delivered by promising demographics, were the main pillars of the program. The prerequisite to the success of the program is the reliability and accountability. At the early stages, the new road map placed burdens on the banks and financial banking in order to achieve the economic stability. At that period, most of the banks lost the trust to deal with each other they were preferred to deal with the Turkish central bank directly. This phenomenon is recently noticed in the banks operate at the United States. After more than 15 failures, the new promise to broad the International Monetary Fund arrangement completely released the way to simplicity the burden of crowding out on banks' capital bases. As well as, prime excess targets to end fiscal dominance had helped. The banks in the 21st century started to face a terrible crisis but then they were given the chance to focus on microeconomic problems. The aggregate weight of struggle and the need to progress a wide set of risk monitors became configuring welcome problems for banks succeeding the macroeconomic problems of the previous decades. Administrating the European Union convergence satisfying productivity in sharp international volatility, administrating foreign exchange risk sensibly when private sector was deeply obligated in foreign moneys under a floating exchange rate system increasing at least locally to participate internationally were between the challenges for banks. When the signs of success started to occur early, the foreigner investors began to search for probable bank acquirements in Turkey. With a better capital base and delivering good chances (and particularly good demographics) compared to other transition economies, the financial markets in Turkey involved aggregate consideration from Greek, American, British, French, and German banks. Growing unions and purchases produced the foreign participation ratio to increase above 30% in few of years. The financial deepening absence indicates that Turkey provides a great prospective for development in the succeeding years. If we look to back at a later date, it seems that the Turkish government will sell the state owned banks to private sector. In the first half of the first decade of the 21th century, the Monetary Policy Committee of the Turkish Central Bank was designed to help institutionalize the monetary policy agenda and, certainly, implied inflation directing verified fruitful, carrying increase down to single digits. Assumed the full promise to stability of price under floating ratio with the Turkish Central Bank implement freedom, the Monetary Policy Committee started to target increase obviously with robust clearness, reliability, and responsibility. Thus, the inflation has been brought down reach to less than 8% in 2005. There is a complete understanding that even such a factually low level of increase is not corresponding to stability of price as defined, for instance, by European Union organizations. Therefore, the goal of inflation in its different terms (medium and long term) is to decrease the inflation to the lowest level and make it reach to 4% and try to keep it at this level to achieve the convergence with the European Union. The banks workers base has been enlarged and also, the banks experienced extra credit development. Currently, financial deepening has happened and economic supremacy has been reversed with high primary excesses being accomplished. Improved struggle and the effect of globalization in the floating exchange rate system opened the banks to exchange risk. The Turkish Central Bank administrated the capital flows through junction with steady foreign exchange purchasing auctions and occasional involvements to purchase local currency. The current trials of banks in Turkey have comprised familiarizing to a low increase environment after the whole years of high and instable increase, emerging new financial tools in order to meet the hedging weights of their customers and capitalizing in new generation knowledges, particularly in the payment systems, in order to stand in strong customer base (Görmez, 2008: 18-21).

2.6.3.4. Developing Process of Islamic Finance in Turkey

In the following steps we will summerize the islamic development and economic growth in Turkey in details.

2.6.3.4.1 Islamic Finance in Turkey

The Islamic banking experiment is ongoing in Turkey with the establishment of first Islamic contribution bank in 1985 (Okumuş, 2014: 6). The participation banks represent a great slice of the Islamic banks. Consistent with the BRSA data that the number of participation banks are five which collecting one State bank with a entire advantage scope of 120,95 million dollar which is 5,15 % of the total banking system assets as of August 2015. There are two banks which will work in the participation concept in the next two years. Islamic finance has been contained of only Participation banks for a long period of time and the other system parts including life, non-life assurance, strength administration, assets of investment and other Islamic financial crops have been mainly discounted. Nevertheless, in recent years, many companies have been established in order to fulfill the need at this financing fields (Okumus, 2010: 1). A new study in Turkey Islamic finance article 2014 of Zawya Islamic finds that there is a large attention in participation banking by those presently not expending it. There is about 38% of nonparticipation bank customers concerned in participation banking. Their concern was robust even with low revenues yet not to the degree of capital risk. So, it can be said that there are high development possibilities can be obtained by the Islamic banks. The banks experts expect that the participation percentage in the Islamic finance can reach into 15% of the total assets on the long-term (Faizsiz Finans Çalıştayı ve Katılım Bankacılığı, 2013: 93-95). The Islamic finance obtained great support from the Turkish government. The Turkish government is implemented a roadmap by founding State participation banks and flagging the way for the agreement certificates (Islamic debt tools). The Islamic debt tools are vital tools which can be used to develop the Islamic finance. Lease certificates being strength based and paying rent in place of interest fulfil with the tenets of Islamic Bonds which is usually identified as Sukuk. In 2010, it is launched the first U.S. dollar denominated lease certificate (Uyan, 2011: 10). Turkish lira denominated lease certificates originated in 2013 according to the report of Turkey Islamic Finance in 2014. Since 2012 the process of issuing the Public Lease Certificates in Turkey has been launched in the Turkish liras and American dollar by the Turkish treasury in order to comply with the Islamic Law. The purpose of this step is to diversify the borrowing tools and attract the largest possible number of investors, fulfill the investments needs of the participated banks and persons who are refuse the interest. Currently, the Borsa of Istanbul states that there us about 3, 75 billion U.S. Dollar denominated public lease certificates are in movement. As well as, the loans of the private sector by the lease certificates is amounted about 862 million dollars.

2.6.3.4.2 Money Market Funds in Turkey

The market of deposit in Turkey consists of many field including asset moneys, pension funds and Exchange Traded Funds. The entire amount of the fund is amounted about 572 with 7, 3 billion dollars below administration. Investment funds organize 45, 76% of the total funds with 34, 9 billion dollars consistent with website fonmarket.com data. The data of Capital Markets Board's on investment funds specify an entire development ration of 36, 29% growth on ability below administration during the period from 2004 -2014. The fund number of investors is raised 24, 49% from 2.632.462 to 3.277.226 during the same time period. The funds of investment can be categorized into Money Market Funds, Bond & Bills Funds, Balanced Funds, Equity Funds, International Funds, Hedge Funds, Private Funds, Funds of Funds and Commodity Funds. The funds of the money market are split into two sets. One of them is being the liquid funds with period between 0-45 days and the other being Short Term Bonds & Bills Funds with duration in between 45-90 days (fonmarket.com). The number of the money markets in turkey are 66 with 27, 2 billion dollars instituting 78% of the asset fund market. Money market funds capitalized 32,11% of their moneys in opposite repurchase contracts, 59,27% of their moneys in short term bond / bills and 8,6% of their assets in other investment tools (fonmarket.com). The Capital Market Council controls funds' maximum total payment rate (TER) as 1, 28% for the fluid funds and 2, 19% for the Short-term bond & bills funds (CMB, 2013: 23). The money market funds are appropriate for the investments of short term of risk opposed depositors. Depositors primarily use money market funds for everyday liquidness administration and security against inflation.

2.6.3.4.3. Islamic Money Market Funds

Islamic funds generally create 4% of the entire Islamic possessions (Pwc, 2013: 6). Asset over administration extended to 75.8 billion US Dollar in 2014 (Inceif, 2015: 1). The countries which subject at these sectors are Malaysia and Saudi Arabia where they hold together 65% of the Islamic market of funds as announced at the website of Islamicfinance.com. Islamic money fund of markets includes 22, 2% of the assets over administration of universal Islamic funds. In general, the money markets funds are usually existed in the home country in place of the offshore residences (Paldi, 2015: 37). Usually, the money market fund is investing in low risk securities with less than one-year development era. The security which are used for investing comprises high quality. The fund controls reduced fees than the funds. The administration of the fund is usually perceived as operating instead of investment administration. Islamic money fund of markets capitalizes in short time Islamic bonds and bills, Islamic bank deposits, Islamic opposite repurchase arrangements (rrepo-i) and / or buy and sell back contracts in Islamic fixed revenue securities and other Islamic investment trucks where all of which includes high liquidity and less than one-year ripeness. The main goals of these funds are to reserve the capital and deliver positive return in the time. An Islamic money market fund is suitable for investors which need Islam compliant investment trucks, high liquidity level, capital conservation, practical revenues with low risk, and desires short term investment (RHB Asset Management, 2015: 53). The process of investment in Islamic secure revenue securities even for the short developments causes the fund profit to fluctuate and may deliver negative revenues for daily or weekly eras. Moreover, the liquidity absence of the secondary market for the bonds centrals the fund to aspect trouble in redeeming investors' money. Bank Negara of Malaysia Islamic Banking and Takaful department delivered leadership records on Sell and Buy Back contract in 2013. According to the notes sell and purchase back contract (SBBA) is some Islamic financial tools presented for the aim of improving liquidity in the Islamic Interbank Money Market (IIMM) and delivering extra income for the IIMM participants to source the necessities of funding. The SBBA is like the repurchase (repo) contract and has been adjusted to fulfil with Islamic values. Also, the SBBA approach is permitted by the National Sharia Council for Islamic Banking and Takaful of Bank Negara Malaysia. "SBBA transactions must include of promise by a party to sell securities and the further party to buy the Islamic securities, and both of them consequently promise to achieve the problem at a future and results in possession transference of the transacted Islamic securities under SBBA. The transactions of SBBA will be exported depending on its price. The ownership of the Islamic securities is sold under SBBA will be moved from the supplier to the purchaser. Both of the parties will transfer the terms of SBBA and approved between others on the Islamic securities type, SBBA price, and tenancy and payment date. Both of the parties will enter in two distinct arrangements. First agreement- The SBBA supplier sells outright Islamic securities to the SBBA purchaser at an approved price and expenditure date. Second agreement- The SBBA purchaser capacities to sell back the Islamic securities to the SBBA seller who will also capacity to purchase back the tools at a decided price and at a future payment date. The responsibility made by both the purchaser and the seller in order to sell and purchase back the tool correspondingly at the maturity date of the SBBA shall be based on promise." (Bank Negara of Malaysia, 2013: 2-8). The Islamic money market funds will be mostly using SBBA contracts to capitalize funds' properties. Assumed that it is authoritative to realize the working mechanism of the SBBA agreements. Regulation of Bank Negara of Malaysia's on the exercise of SBBA is very significant in order to deliver regularity and criteria of the SBBA trades.

2.6.3.5. Proposed Islamic Money Market Fund for Turkish Market

The Islamic money market in Turkey will be clarified in the following steps.

2.6.3.5.1. Proposed Mechanism

As above-mentioned, money market funds will invest in extremely fluid and short term tools. Smooth for the treasury of short term bonds and bills, there must be liquidity and value risk reliant on the market circumstances. Thus, the managers of fund capitalize a great share of funds' properties through opposite repo arrangements. So, the Turkish market where depositors can everyday exchange their stock shares, managers generally grow into everyday opposite repo contracts to the risk of avoid liquidity and price. Traditional banks administrate their everyday liquidity by the use of Central bank open market repo and reverse repo dealings in addition to other bank dealings. Nevertheless, the Turkish participation banks had needed the means to use Central bank open market transactions due to that these transactions were not Islam acquiescent. Therefore, the participation banks are unable to deliver the returns of their deposits for their excess liquidity. With the aim of solving this problem, the Central Bank of Turkey reviewed its open market dealings agreement upon the demand from the participation banks and comprised withdrawal right from "buying security at a future date for sell buy back transactions" and "selling security at a future date for purchase sell back transaction" in approval of the Central Bank of Turkey. As well as, the Central Bank of Turkey has removed the phrase of interest and substituted by return. The participation banks started the process of opening market transactions with the Central Bank of Turkey by the use of public lease certificates as underlying security (TCMB, 2013: 1-2). They will appliance the same technique of the participation banks which administrating their liquidity for the suggested Islamic money market fund. Investment assets which sold in the Turkish markets are greatly controlled by Capital Market Board of Turkey (CMB). Capital Market Board of Turkey needs creation of umbrella funds for funds whose shares are delivered under a single statute (CMB, 2013: 2-3). The suggested Islamic money market fund will be designed under "Participation Umbrella Fund". Funds categorized under participation umbrella funds might only capitalize their resources in lease certificates, stock shares, gold or other precious metals and other interest free money and capital market tools (CMB, 2013: 3-4). As well as, Capital Market Board of Turkey is defined another umbrella deposit form named as "Money Market Umbrella Fund" for funds that can invest in extremely liquefied money and capital market tools with a extreme 184 days to maturity and weighted average period with determined 45 days (CMB, 2013: 3). Moreover, umbrella fund development can be executed for the suggested Islamic money market fund structure. We can take the former at this study. The suggested fund will be considered as "Short Term Lease Certificates Fund" fulfilling with Capital Market Board of Turkey fund regulation. The expression of "Short term" can be used only when the fund has a biased average period between 25 to 90 days (CMB, 2013: 11). The fund is invested in the Turkish lira created short term public and private sector lease certificates, contribution time credit and additional interest frees. As well as, the fund is invested with purchase and sell back arrangements on lease certificates through Borsa Istanbul. The whole transactions of fund but credits must be implemented in Borsa Istanbul. Capital Market Board of Turkey rules only permit 10% of the fund's benefit to be implemented separate of Borsa Istanbul through repo and reverse repo transactions. The offered fund may assign its assets up to 100% in public lease certificates, in the private sector lease certificates, in purchase and sell back transactions of lease certificates and other interest free money and capital market tools. The fund might only assign a concentrated of 25% of its properties into participation bank time credits. It is significant for the fund to be liquid and to deliver daily optimistic profit in the same time. Therefore, the manager of fund may choose to invest a large part of the fund's properties through purchase and sell back transactions to fulfill both aims overhead. The fund will recognize purchase and sell back dealings as in the case of participation banks or Bank Negara of Malaysia. Both of the sides (as in Malaysia) and one side (as in TCMB) may withdraw from its responsibility to purchase or sell back the primary security. Such that the arrangements must be studied and Borsa Istanbul must act according to that.

2.6.3.5.2. Projected Market Size for the Islamic Money Market Funds

The Turkish Banking Sector had 661, 3 million dollar created deposits at the end of 2014. The quantity of request payments created 17, 79 % of the entire deposits. For example for the participation banks, entire Turkish lira based credits amounted to 38, 8 Billion Dollar and established 23, 37% of demand credits. Deposit development in Participation banks surpassed the deposit development in entire banking sector between 2010-2014.

Table 7: Banking Sector and Participation Banks American Dollar Based Deposits.

	Million Dollar 2010	**2011**	**2012**	**2013**	**2014**	**CAGR**
Banking Sector American Dollar Deposit	433.501	459.958	520.421	594.051	661.343	11.14%
Banking Sector American Dollar Demand Deposit	65.201	72.177	81.462	107.244	117.676	15.91%
Demand Deposit\Deposit	15.04%	15.69%	15.65%	18.05%	17.79%	16.51%
Participation Banks American Dollar Deposits	22.119	23.896	28.408	36.567	38.838	15.11%
Participation Banks American Dollar Demand Deposits	4.164	4.887	5.201	8.592	9.076	21.50%
Demand Deposit\Deposit	18.83%	20.45%	18.31%	23.50%	23.37%	19.11%

Source: Annual Reports of the Turkish Central Bank

As shown in Table 8, the Money Market Funds rate size to Banking sector request deposits had reduced between 2010-2014.

Table 8: Money Market Funds vs. Demand Deposits.

	Million Dollar 2010	2011	2012	2013	2014
Banking Sector American Dollar Demand Deposit	65.201%	72.177%	81.462%	107.244%	117.676
Market money funds	23.118%	20.507%	17.361%	31.101%	25.727%
MMF\dollar Deposits	35.46%	28.41%	21.31%	21.54%	21.86%

Source: Annual Reports of the Turkish Central Bank

The Islamic Money Market Fund to reach 6.791 Billion Dollar strength under the administration at the end of 2021 as shown in Table 9.

Table 9: Projected Islamic Money Market Funds' Size.

	Million dollar 2014	2015	2016	2017	2018	2019	2020	2021
Participation Banks American Dollar Deposits	9.076	10.437	12.003	13.803	15.874	18.255	20.080	22.088
Demand Deposit\Deposit	15%	15%	15%	15%	15%	10%	10%	10%
Islamic Money Market Funds (% of DD)	-	-	3%	5%	7%	9%	11%	13%
Islamic Money Market Fund Amount	-	-	360	690	1.111	1.643	2.209	2.871

Source: Annual Reports of the Turkish Central Bank

The suggested Islamic Money Market fund will be spread through participation banks, traditional banks and brokerage houses and similarly through Electronic Fund Distribution Platform to the investors. The fund goals corporate investors such as pension funds, public trusts, foreign and domestic companies with interest compassion as well as separate investors.

CHAPTER THREE

ANALYZE THE LIBYAN ISLAMIC BANKING WINDOWS AND DISCUSSING THEIR SIMILARITY WITH THE TURKISH ISLAMIC FINANCE

After we make a comprehensive review to the Islamic banks in Turkey and some Islamic countries, now we will make a general review about the Islamic banking windows in Libya and the face of similiarity with the Turkish Islamic banking system where Tukey have Islamic banking windws in some conventional banks.

3.1. Opportunities of Islamic Banking in Libya

Strategically, Libya is located in North Africa and it is a stable and safe country and has small percentage of people. Also, it enjoys by a large coast and lands and this is considered a great opportunity for Libya and Islamic banks.

a) Libya can play a large financial and banking role in Africa according to its distinctive geographic location and it’s near the European Union countries which qualify it more than another country. Furthermore, its location in the Mediterranean can help it to develop international banking sector and significant financial point between Europe, Arab World and Africa.
b) The Libyan central location helps Libya to be one of the international financial centers in the region and the gate of Africa in the field of Islamic banking and support the new political role of Libya.
c) The Islamic banking sector can give Libya great opportunities to help in the construction and modernization of its infrastructure, agriculture, tourism and housing. Furthermore, there are huge projects which can be created and developed by the use of Islamic banks as the case in other countries such as Bahrain and United Arab Emirates and these projects including sub-projects which need great amount of money such as modern airports and factories,

d) The Islamic banks can be considered an important source for the national economy which is highly depending on oil that is considered the main source of income to the country. Moreover, Islamic bank can configure an economic base to the country which contribute in its economic growth (Edward Elgar, 2001: 128-133).

3.2. Problems Standing in Front of Islamic Banks in Libya

There number of challenges where the Islamic banks face and the Islamic banks in Libya are not accepted. The Islamic banks is a banking machine which supply offer on the short-term without interests and face many problems including the consumer loans and the governmental deficit and until now they are considered not well-devised. The entire banks in Libya which work based on sharia have resorted to finance which provides a prearranged return on investment in order to avoid the increased short-term financing risk. So, the banks are just changed its transaction name. The Islamic banks in Libya face many other problems which are the lack of trained staff in order to evaluate the projects which need a financial support and the lack of support by the Libyan central bank. Therefore, the Islamic bank cannot increase their portfolio even in the existing of great monetary resources. The following problems are faced by the free banks that work in Libya:

Problems Related to Macro operation of Islamic Banks

a) Capital and liquidity,
b) Bank property estimation,
c) Monetary firmness,
d) Bank possessions,
e) Lack of capital market and interest,
f) Inadequate legal safety,
g) Control and supervision by the central bank,
h) Absence of Islamic money market,
i) Accounting principles and procedures,
j) Shortage of skilled and trained manpower,
k) Lack of support among Islamic banks,
l) Harsh rivalry in the financial sector,

m) Economic and political situation,
n) Lack of infrastructure for worldwide Islamic trade,
o) Evasion of borrowers culture,
p) Lack of courses on Islamic economics and banking,
q) Lack of uniform operational procedure,
r) Lack of harmonization of Islamic financial practices,
s) Missing of secondary securitization market,
t) Deficient of studies of Sharia based banking, economic and financing.

Problems related to micro procedures of Sharia based banking:

a) Enlarged price of information,
b) Cost of funds control,
c) Markup and despoiled financing,
d) Exploitation of interest rate for fix margins of profit,
e) Social concerns,
f) Deficient of constructive answer to the necessity of government financing,
g) Breakdown of Sharia based banks in financing projects with high return,
h) Loss of distributive effectiveness,
i) Profit depression,
j) Fraud, forgery or corruption,
k) Minimized budget for expansion and exploring,
l) Poor work surroundings,
m) Deficient of Sharia guidebooks or procedures,
n) Investment risk investigation and measurement methods,
o) Deficient of Sharia supervisory bodies.

The problems in the list above state that the researches and operations must be implemented on the Islamic banks in order to flourish at the highest levels in terms of strength and quality. In general, the Islamic banking especially in Libya face many challenges to survive and stay. It must be the traditional banking system to review and adopt the benefits of Islamic banking has inside the country's economy framework, not to Islamic banking turns into the current classical banking system. The latest researches and studies revealed that Libya has not implemented any progress in implementing the Islamic banks in Libya (Mohamed Zaed, Osama Garoum, Moftah Aldaif, 2016: 1-4).

3.3. Development of Banking Services

The replacement can be implemented by many steps including the macro level, direction, and geographical location of the request for service and as a result of this choice is divided by the market and the needs of the customers and acquire how cognizance of the competitors. The Islamic bank includes internal analysis to determine the bank finance source and the bank knowledge in selecting specific number of fields of the market that the bank wish to supply banking services to the existing or new services. Finally, the competitors' analysis that is to identify the bank strengths and weaknesses and its light is outstanding as an entire to decide the aim or strength of certain banking, and associate those thoughts with the analysis procedure of the bank. It is direct and emphasis on the service strength in order to target the segments of market. Also, it is within the integration of three kinds of analysis the above-mentioned are as we analyze the market, competitors and interior environment of the bank. Thus, we have an alternatives list which are banking services elements presented in this market, and regulate the willingness of the customer adoption of these services. Marketing should be able to place a marketing plan which associate with profit expectations. Therefore, this plan must benefit from all of the previous plans which lead to develop the work of determined marketing of the bank and take into consideration all of the considerations mentioned previously to the plan and take into account the beginning and regulation to the service development or action plan gotten by the bank. The services of the bank can be increased by increasing the productivity of the bank by using the submitted of technology applications in different banking services across the competence and efficiency of the Bank's performance by delivering the services quickly, the accuracy in the application, and important savings by using of models in stock used in the different conventional approaches for banking services implementation. Particularly, the development of information and technology regulations will result in a revolution in operating the banking services. The use of technology in the banking dealing is not limited only on developing the current banking services but it includes a source of new services including the communication, special treatment in the search through automating systems and technologies. As well as, information systems have been entered to the banks in the field of information systems to provide the training and education of these concepts and how to use them including the ATM machines. There is a big difference between the use of paper or electronic means when implementing the different processes. Moreover, it can be noted that there is a huge cost difference with regard to process checks, for instance, the use of electronic means in the implementation of various phases of this process, to decrease their own costs to the extent possible, whereas increasing costs importantly by the use of conventional party that dependence on using papers. As well as, there many areas to use technology to develop the banking services and raise its effectivity by the use of developed computer systems which Imam be able to discover a group of advanced services that be able to find a service or a more complex banking services. Thus, they are most significant to customers and especially legislatures Corporations, comprising in addition to the use of developed communications systems between many branches of banks on the one hand and facts of distribution of these services Neshanic to decrease the costs of these advanced banking services and i9ncrease effectivity. As we have mentioned earlier that the banks is always seeks to reach new banking services in order to ensure persistence, continuation and growth and is dangerous when the Bank is working this, on the other side and even if we adopt that it is easy to make some new services. "How many of them can made success? That a new service needs to make the strength, also adequate time to offer it with circumstances and in spite of all this may be successful, or part of success. Nevertheless, the failure risk and the high rate list for new banking services is generally to reach together the quantity of new products or services is not easy because of many reasons which can be summarized as follow" (Basher Abbes, Hammed Abdul Nabi, pp. 2-7):

a) Services which depend on technologies need into new things in order to discover new things.
b) The competition shift on market without fully control room but it needs to segment the market and classify it into segments and thus, it aims to offer new services.
c) It is a vital to the new services to accomplish the customer or client saturation and to achieve at the same time enough income.

d) The new services include many problems including the high cost. Actually, it does not comprise the service cost or another thoughts which have been excluded at any development phase of the new service.

e) The failure problem is existed where the probability of the service to fail is higher than its success probability. The profit criteria to judge the service success or failure can be the difference between three different cases including if they do not have adequate profit in order to cover the variable cost, new services and thus, accomplish a complete failure of the service. Second, as this fractional failure of the new service, and clear, when incomes cover variable costs and permanent costs with income margin of somewhat less than income accomplished by the investment bank's other alternatives investment are considered failures of this relatively to some extent.

f) The short duration of the new services success dependence after passing the new service to the whole development phases, the accomplished success by the competitors may be attracted to the conventional is typically the bank or its products, leading to effect the new service success degree of the bank.

The development of banking system in Libya and their assest are shown in Table 10.

Table 10: The Growth of Funds Collected (Thousand libyan Dinar).

Years	Participation banks	Banking sector	Share in banking sector (%)
2005	2.123	154.144	3.19%
2006	3.110	235.781	3.47%
2007	2.999	124.514	4.02%
2008	4.112	215.143	4.06%
2009	4.321	261.215	5.14%
2010	4.679	301.231	5.36%
2011	5.112	337.311	5.64%
2012	5.614	312.231	3.2%
2013	5.981	345.617	3.21%
2014	6.116	332.314	3.01%
2015	5.989	353.124	3.22%
2016	6.110	375.241	3.21%
2017	6.615	366.116	3.31%

3.4. Evaluation of the Experience of Republic Bank

The largest commercial bank which work in Libya is the Republic Bank. The capital of the republic bank in 2008 was about 20,000,000.000 Dolar. The number of branches which belong to the Republic Bank is 146 branches where these branches are spread in all of the Libyan regions. Also, it is considered the first bank in Libya which start the experiment of the Islamic exchange where it started the formula of Murabaha in 2009. This bank is adopted the Islamic sharia goals through the following:

a) Activate the sharia side in the banking issues.
b) Achieve the customers and recipients' approval.
c) Develop the banking job by many and new products and keep pace with the world.
d) Develop the society and offer the requirements in ease approaches.
e) Activate the commercial effort for both the private and public sector.
f) Guaranty the goods flow in exchange with cash flow.
g) Invest the liquidity and employ it optimally.
h) Gain a fulfilled share of the market.
i) Publish the Islamic change culture and sharia transactions.
j) Encourage the individuals on deposits and investment.
k) The polarization of money and invest in its natural environment.

3.4.1. Shariah Standards in the Republic Bank

The bank includes shriah institution which have been generated according to the board of director decision with number (47) for 2009 where the committee comprises of a set of specialists in Islamic shariah separate from the bank staff. The functions of the shariah committee which determined by the bank can be summarized as follow:

a) Facilitate the Islamic financial transactions by issuing the shariah fatwas.
b) Organize and assess the contracts, documents and others.

c) Follow the members of sharia members by the overall administration and areas.

Therefore, it can be noticed that the shriah committee which presented in the bank follow the board of director and administrate the supervision and preparation process which belong to all of the processors in the Islamic exchange. Also, the shariah committee functions are mentioned in the contract of collaboration only in spite of the significance of these functions, accuracy and effect on the Islamic exchange.

3.4.2. The Existing of Management for Shariah Control

The shariah observers have been created for the following purposes:

a. Observers of shariah in the general administration and the duty currently is administrated by two shariah observers.
b. Observers of shariahs in the regions where the branches of bank are distributed into ten regions according to the geographical separation and presently the mission is administrated by 2 shariah observers in each region.
c. Observers of shariah in the branches and the duty currently is administrated by the employee who work in the internal assessment section where he use special stamp associated to shariah review.

From the above explanation, it can be noticed that the lack of presenting administration associated with shariah observers both on the general administration level or branches. Furthermore, it can be noticed that the shariah work in the branches is the same employee that associate with the conventional section in the bank and it is not experienced for the sharaih revision and therefore, we can assume many faults and imprecision in employing the process of Islamic exchange and procedures.

3.5. Revision Standard

The bank effectivity is measured by this standard by the use of Murabaha formula to purchase through several indicates comprising the income percentage on the investment and the percentage of profit.

3.5.1. The Standard of Applying the Investment Mean

There are many standrds which are used to apply the investmnet mean and these means can be illusttared as follow:

a) **Prepare the evidence of the work procedures**
When the bank applied the Islamic exchange, it prepared the work guide of Murabaha formula. The work guide included the model names and the contracts to apply the procedures of this formula. As well as, the guide included the guarantor conditions, the common conditions of the sell and the steps to apply the formula of Murabah, the elements of risks, the marketing procedures and other information which associate with Murabaha.

b) **The commitment with accounting standard of the accounting authority**
The accounting criteria issued the Murabaha and Murabah with purchase that delivered by the authority of accounting and revision for the financial Islamic organizations and accounting processes in terms of:
   1) Measure the assets value when they are owned by the bank where criteria determine the historical cost as the base to measure and demonstrate the goods in preserving date.
   2) Measure the assets values when they are owned by the bank.
   3) The assets value is existed to sell are measured after owned through the Murabaha formula when they are committed with the date which is based by the historical cost. When the assets value is lack or damaged, the lack must be taken into account when measure the assets value at the end of every financial period. At Murabaha case, the bank is

discovered to the possibility lack to lack of recovery and the assets should be measured in the probable cash value. It means to reduce the cost by the use of the provision for assets impairment.

4) The criteria determines that the short-term and long-term receivables with the basic value when they are arisen. As well as, they can be measured in the financial year end on the net cash value which estimated to be obtained.
5) The profits or income can be verified at the contracting time whether the operation is cash or to no later than the present period.

3.5.2. Standards of Using Fulfillment

These criteria are measured period to fulfill the formulas of Murabaha for the dealers needs with the bank. It can be addressed by addressing the variety to use the averages of agents' growing (Mohamed Nidal Al-Sha'ar, 2005: 5-15).

a) **Diversity of Areas of Use:** In the last period many good are brought such as cars and computers and the work are continuous in order to bring another goods in the future. The previous experience gives a good pointer on the diversity of use by studying the dealers needs and work on placing the good which suit these needs.
b) **The Average of Agents Growth:** This indicator points to increase the number of agents in the whole branches which offered the formulas of Murabah and the concern is spreading to consist a obvious decrease in the conventional social advance payments balances according to the agents wishes in closing these advances payments and pointing to the Islamic recipes.

3.6. The Libyan Banking Statistical Base

In the recent years, the banking sector has been changed quickly across the world. The banking industry continuously provide new services, follow new rules and laws, supply new techniques and face stronger competitions. Certainly, there are different institutions provide financial services similar to the services provided by the banks such as brokerage, mutual funds, firms, insurance companies and leading security dealers. Thus, the banks face these competitors by increasing their services to offer non-banking services including insurance, investment in mutual funds and several other financial services. The direction competition included great number of banks and non-banking financial organizations.

This complete environment motivated the bankers to evaluate their policies, incomes and risks. Therefore, the financial statements of the banking institutions are reflected by the financial services which provide. The community can use these financial statements in order to compare between one bank and another. The most used indicator of this issue are the following financial ratio: return on equity (ROE), return and assets (ROA) and earnings per share of stock (EPS). The performance goals and the objective of the banks are determining the most effective banks (Stolowy, Herve, Lebas, 2002: 584). Therefore, the financial statements of the bank are constantly inspected by stockholders, investors, perspective shareholders and the general community. The management of banks give special importance to the stock values where they are sensitive to the changes of currencies and interest rate. Furthermore, they operate to decrease the cost of operations and risks which considered the key goals over all issues. Accordingly, in the open competitive environment, the information and funds must flow easily into the numerous banking objectives. The banks are negatively affected by the government involvement and caused the absence of many institutions including credit market, a foreign exchange market, a secondary market, a stock exchange market, and most significant one is the financial information center. Since the Libyan central bank determines the currency exchange and interest rate, the Libyan commercial banks cannot enter into the open markets. The Libyan commercial banks include old financial statements and there is no ability to use financial standards to assess the performance of the banks. Furthermore, these economic factors cannot play any positive role in the Libyan economy as supply and demand. The lack of these signs and organizations enforce the shareholders to use the return on shares and the banks spending to control the effectiveness of the banks and their administrations (Alexander, David, Britton, 2003: 21).

3.6.1. The Financial Analysis of the Libyan Commercial Bank

The Libyan banking sector history return back into more than 50 years. Before 1970, the Libyan banking sector was weak and it is was consisted of the foreign banks branches only with the Libyan national bank that is called the national bank of Libya. After the revolution of 1969, the government made many attempts to control the Libyan commercial banks and the financial sector particularly. Thus, the commercial banks and the banking sectors in general became under the direct control and regulation of the government. This enable the country to control the rest of the banks through the Libyan central bank. This led to many problems including the lack of strong statistical base. Therefore, a depressed image has appeared of the Libyan economic and statistical base of the banking sectors. Many international organization such as the World Bank stated that the Libyan banking sector and economy suffer from significant shortcomings including quality, coverage, and a timeless and reliable method to statistics and data. All of these issued must be determined and addressed. These weaknesses and disadvantages led hamper the ability of organizations to perform the related economic analysis and make it difficult to determine the required averages and the economic ratios such as inflation. However, the government has highly interested to make these organizations having leadership role in order to formulate strategies to fix this sector. Consequently, the International Monetary Fund and the World Bank have recommended the monetary authorities in Libya to increase the struggles to accords Libya's financial statistical data base with international criteria. These two institutions (International Monetary Fund and the World Bank) believe that the Libyan information systems have been designed to the administrative inform by the government desires. Thus, the organizations advised the monetary authorities in Libya to begin keeping precise statistical data for the purpose of analysis and planning. Furthermore, they are motivated the monetary authorities to create National Statistical Council which ensure organizing between the agencies of data-producing, and allow conversation and verification of the national statistics and prompt a national statistical work program. Instead, they requested from the monetary authorities in Libya to consider the participation in the funds.

The beneficial framework of the statistical progress is the General Data Dissemination System (GDDS). In the first, the Libyan monetary authorities agreed in 2003 to announce the financial reports of the international financial organizations such as the World Bank and International Monetary Fund. In 2006, the Libyan central bank learned the International Monetary Fund its intent in the participation at Gross Domestic Product in order to enhance the criteria of the Libyan national statistical system. According to Alexander et al. one of the most important reasons of the variations in the nation's accounting system is the economic and legal culture. As well as, the culture represents a significant influence to report and disclose the behavior with regard to the financial information. It seems that this situation is the image of the Libyan financial and banking sector (Alexander, David, Britton, 2003: 574).

3.6.1.1. Financial Analysis

The financial analysis can be defined as the tool that make difference between the success and failure of the bank which allow to a large ration a precise interpretation on the banking activities and full examination of a business financial location and revenues in relation to threat. Thus, this tool helps to predict the business or industry performance of future. The financial analysis operations comprise reclassification and summarization of financial data by establish a satisfactory accounting measures. The financial statements at the banks represent a source of securitizing their financial data. At this context, the researchers use many financial analysis techniques. The most significant technique which are commonly used are the horizontal (the trend and time-series analysis), and vertical financial analysis techniques. At this field, the researcher will use trend and time series of the entire industry. Also, the researcher will compare the sector performance for its own history. The reasons that have been encouraged the researcher in order to use this technique are varied. Firstly, this sector is free of competitive environment. Secondly, the government owned the large ratio of the banks in addition to its interference at this sector. Thirdly, the absence of the credibility and transparency at this sector. Fourthly, the banks which owned by the state are free of published financial statements. Thus, the progress at this sector is so slow and cannot be noticed. So, the researcher trusts that the time-series and trend analysis is significant.

The literature confirm that the frame of five years is essential. Moreover, the analysis which include more than ten years is also acceptable.

Accordingly, the comparison period which is chosen at this includes five years starting from 2000 to 2005. The base year of comparison is the year of 2000. Consequently, the percentage change can be computed by two steps; the first step comprises the degree of change computing in the dollar value and the local currency from 2000 until 2005. The second step comprises the division of the dollar value on its base year value. This computation results is an index that enable us to study the trends and the performance of the Libyan banking sector at that period (Stolowy, Herve and Lebas, 2002: 574).

3.6.1.2. The Period of Financial Analysis

As we mentioned earlier, the government depended on the commercial banks in order to achieve its political objectives. Therefore, the great functions of commercial banks in Libya were distracted in order to satisfy the government elites. This issue is affected negatively on the performance of the banking sector. The researcher chose the period of study from 2000-2005 because of many reasons. The first reasons is that the Libyan commercial banks at this period were subject to intensive governmental rule. These new controlling contexts comprise, for example, Law No. 1 of the year 2005 and the previous Law No. 1 of the year 2003 concerning the instruction of the Libyan commercial banks. The second reason is that the commercial banks have been revived and distributed hugely in the country at this period. The third reasons is that the governmental expenditure is increased at this period according to increase the prices of oil. The fourth reasons is that the sanctions imposed by the United States and United Nations in 1992 has been lifted in 2003. The lifting of these sanctions has opened the way to perform economic and political reforms not only in the banking sector but included most of the other economic fields. All of these factors helped in developing the Libyan banking sector in general at that period.

3.6.2. The Assets and Liabilities Structure of the Libyan Commercial Banking Sector

The structure of assets and liabilities of the Libyan commercial banking sector is differed until 2003. The overall change and development of the economic is affected on the structure of assets and liabilities of this sector. They made it complex for the comparison and assessment of the ongoing operations in the economy. At the next steps we will analyze and compose the assets and liabilities for the Libyan commercial banks during 2004 to 2014. This is to avoid the distortions which may arise from the financial items classification differences.

3.6.2.1. The Asset Structure of the Libyan Commercial Banking Sector

Assets can be defined as "anything owned by a person or institution and have a monetary value which is usually its cost or value of fair market". The same concept applies in the commercial bank sector where it refers to the distribution of moneys and funds between cash, securities, investments, loans and other assets. The Libyan commercial banking sector assets can be categorized into eight categories including liquid assets which include cash in vault in both local and foreign currencies; deposits with the Libyan Central Bank; deposits with domestic commercial banks both on demand and time deposits; deposits with foreign banks; investments; credits involving of loans for economic activity; property loans; social loans and loans to the GMMR project; fixed and other assets; and finally contra accounts. The Libyan commercial bank assets structure in the period between 2004 to 2014.

As shown in Table 11 and because of the standardization of accounting is started in 2009, the Libyan commercial reserves and capitals is increased by 270% from 2009 to 2017. Indeed, this increase refers that there is a remarkable increase has occurred during one year in the Libyan commercial banking sector and it has been supported. Also, this points that the deposits in the Libyan Central Banks is increased by 46% during one year from 2009 to 2017. Nevertheless, in the same period which is between 2009-2017, the deposits in the commercial banks increased by 700%. This transformation at the same period from the local commercial banks to the foreign banks lead to the opening of the Libyan economy on the global banks.

Table 11: Assets of the Libyan Commercial Banking Sector during 2009-2017 in Million Dollar.

End of	Reserves and capitals		Deposits			Borrow from banks		
	Reerves	**Capitals**	**Demand**	**Time**	**Total Deposits**	**Central banks of libya**	**Banks of Libya**	**Foreign banks**
2009	2623.0	1034.1	35857.5	12102.6	48767.0	51.9	52.4	135.6
2010	3351.2	1166.1	42381.1	12321.8	58480.1	0.0	47.6	81.8
2011	3352.9	1012.3	46376.4	11419.8	68346.2	0.0	47.0	290.8
2012	3495.4	1158.1	54728.8	12912.1	83562.7	0.0	45.7	139.6
2013	3550.2	1193.5	61834.9	21064.9	79058.5	0.0	43.7	47.9
2014	3614.0	1307.4	56379.3	2255.8	79541.2	0.0	43.0	435.4
2015	36432.5	1510.1	59887.8	2578.9	80542.3	0.0	44.1	44.3
2016	36613.8	1511.4	60001.8	2686.3	91564.3	0.0	44.0	43.7
2017	36723.9	1521.8	60454.7	2787.9	96746.3	0.0	45.1	44.2

Source: The Libyan Central Annual Report Fiscal Year 2014

3.6.4.2. Analyzing Changing of the Libyan Commercial Banks' Liquid Assets

The fractures which belong to the liquid assets are not existed in other types of assets. The liquid assets can be sold quickly with least amount of loses. Nevertheless, the liquidity of bank or its liquid assets is its ability to meet its obligations when they fall without experiencing improper losses. The process of managing liquidity is performing everyday by the experts of banks in order to preserve the adequate liquidity. Preserve the liquidity is an important issue in order to implement the short-term expenses of the bank and reserve requirements. The portfolio of liquid assets for the Libyan commercial banks comprises of cash in vault, deposits with the Libyan Central Bank and the deposits at the commercial bank.

Table 12 shows the change of the liquid assets in the commercial banks work in Libya which presents imposing growth in several of their liquid assets. Mainly, the Libyan central bank registered a despite growth amounted about 700% and the amount of cash existing in the bank is increased about 27.70%. Instead, the deposits at the commercial banks are registered a sharp fell by 29.30%. Also, in terms of the cash in the vault, Table 12 shows that the amount of cash in the vault at the local currency is increased by 27.7%. This achieved growth can be caused by three main factors which are the lack of good investment opportunities, meeting the banks short-term expenditures and cash transactions in society. The third factor appears to be normal plea of the monetary authorities and bankers in order to validate high cash levels. Nevertheless, after the sharp increase of oil prices, the foreign currency holdings increased by 6.86 %.

Table 12 clarifies the change in these items by the use of trend and time-series analysis. The Libyan commercial banks are indebted, according to Article 57 of Banking Law No. 1 of 2005 to preserve with the Libyan Central Bank, without interest, monetary reserves consistent to their liabilities of deposit. Furthermore, as a part of the mutual finding and fulfill the short-term liquidity requirements, the commercial banks preserve by money and funds at the other commercial banks. Table 12 illustrates that the deposits at the Libyan central banks has been increased by 145.9% and 469.3% correspondingly. Increase the specialized deposits at the commercial banks represents one of the basic pillars which led to this increase. The amounts of funds which allocated to the specialized banks are used to supply housing and productive loans for people.

In contrast, the number of private commercial banks is increased in the period between 2006-2017. Furthermore, the responsibilities of the commercial banks are assigned to the regional banks which merged based on a geographical bases. As well as, Table 6 shows that the banks have funds and moneys in time-deposit accounts at the Libyan Central Bank and with the other commercial banks as a part of the loans portfolio diversification and as means which can be used to generate profits. Nevertheless, time-deposit accounts which existed in the Libyan central bank is observed great increase by 681.7%. While the time-deposits which existed in other commercial banks have not witnessed any increase at all. The summary of change in the Libyan commercial banking sector liquid assets, according to trend and time-series analysis is explained in Table 10.

3.6.2.3. The Problem of Libyan Commercial Banks' Liquidity

The problem of the commercial banks in Libya that they suffer from high amount of liquidity. The reports of International Monetary Fund state that this represents one of the basic characteristics which characterize this sector in addition to the high rate of non-performing loans. The Libyan central banks are determined the liquidity rate in 1970 at 15% to the whole liabilities after eliminating four-month time-deposits and Jamahiriya Treasury Bills and Securities. Since the new banking law has not been determined so far, the Libyan monetary authorities are still use this rate. In 2001, the liquidity exceeded the reserve requirements by 144% as mentioned by Alwaddan. Instead, the statistical data of the banks clarified that at the end of 2005, the liquidity of the banks exceeded the board of money by 34%. There are three basic factors which led to this status. The first factors are that the representatives of the bank adopted defensive lending policies by keeping large amount of moneys in the liquid assets. The second factor is that the currency policy which dominated by the governmental credit by monitoring the interest prices. The third factor is that the absence of probable investment opportunities and ineffective resource distribution. In 2004, the Libyan government decided to reevaluate the account of the foreign assets at the Libyan central bank in order to buy back its own remaining local debt and part of the public innovativeness debt to the commercial banks. Furthermore, in 2005, the government is planned also to return other amount of public enterprise debt to commercial banks. Nevertheless, this step is considered a significant enhancement in the loans of the commercial banks. Conversely, the international monetary fund has recommended the monetary authorities in Libya to ignore this worry over liquidity. Moreover, the international monetary fund supposed that the ownership of the government for the majority of commercial banks might have helped them to a great amount in recycling their liquidity. According to the international monetary fund, the amount of money in 2017 is approximated about 594,7 million dollars (Libyan central banks bulletin board, 2017: 130).

Table 12: Trend Analysis of Libyan Commercial Banking Liquid Assets during 2006-2017 in Million Dollar.

End of	Assets						
	Cash in Vault	Deposits				Liquid assets	Treasury Bills & Securities
		Demand Deposits		Time Deposits			
		With Central Bank of Libya	With Banks	With Central Bank of Libya	With Banks		
2006	201.2	3,448.7	144.3	7,735.7	34.0	11,612.7	0.0
2007	370.9	4,970.7	203.1	13,177.7	24.0	18,782.9	0.0
2008	374.4	12,931.5	116.4	19,538.6	394.4	33,393.7	0.0
2009	512.0	12,948.5	191.8	25,619.3	100.0	39,454.3	0.0
2010	847.1	13,251.5	167.2	30,686.0	0.0	44,987.3	0.0
2011	864.6	18,728.7	241.7	27,339.7	90.0	47,513.2	0.0
2012	1,433.3	17,203.4	329.0	35,737.8	0.0	54,816.2	0.0
2013	1,622.6	19,364.6	347.6	44,307.3	30.0	65,761.8	0.0
2014	1,619.9	19,317.8	408.2	37,074.6	0.0	58,443.4	0.0
2015	1,6288	19,387.2	418.4	38.165.5	0.0	58.3422	0.0
2016	1,6489	19.543.2	419.6	39.1759	0.0	60,35866	0.0
2017	1,76652	19,65541	418.87	392.1898	0.00	61,98876	0.0

Source: 48th, 49th and 50th Annual Reports of the Libya Central Bank in the Years Betwen 2006-2017

3.6.2.4. The Investments

The country economic development and level of investment comprise a high correlation. In 2004 and for the first time, the term investment seemed in the liabilities and portfolios of the Libyan commercial banking assets. Before this date, the word Jamahiriya Treasury Bills and Securities were existed. Its purpose was to help the government on facing the economic penalties which imposed on the government and the lack in the budget. This tool was the normal mean which through the government collect the moneys from 1974 to 2003. They were sold to the state-owner institutions and commercial banks where the Libyan Central Bank enforced the commercial banks to purchase them. In 2003, The Libyan government has liquidated Jamahiriya Treasury Bills and Securities where their incomes were freed from taxation. This action has great impact on the state-owned banks particularly and one the commercial banks generally. The profitability of the banks have been decreased by about 6%. Instead, the International Monetary Fund provided a set of recommendations to the monetary authorities in Libya in order to promote their monetary policy and provide a suitable investment environment and these recommendations include the Libyan central bank certificates and treasury bills (IMF Report, 2000: 23).

The annual reports of the private banks state that the investment in the sector may be separated into two classes which are the national investment in the form of long-term investments held in other national companies and international investments that accomplished by the Foreign Arab Bank. The Libyan commercial banks growth of investment in the period between 2006-2017 according to trend and time-series analysis is illustrated in Table 13.

Table 13: Trend Analysis of Libyan Commercial Investment during 2006-2017.

Years	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Growth of Investment**	**Growth %**
Investment in million LD	1,304.3	1,469.1	2,843.0	2,594.5	30,420.5	24,430.8	20,254.1	18,252.4	18,118.6	18,319.4	18,324.7	18,4218	(116.8)	(100.5)

Source: 48th, 49th and 50th Annual Reports of the Libya Central Bank in the Years Betwen 2006-2014

Table 13 shows that in the period between 2006-2017 the trend analysis of the Libyan commercial banks investments witnessed from sharp increase in the investments by 116.8%. This issue belongs to increase the international oil prices at that period which enable the government enjoy by huge additional incomes and fix the previous deficit in the budget. The summary of the Libyan general trend in the investment of the commercial banks during the period between 2010-2017 in million LD.

The account of investment is reached to its greatest level in 2015 by 20 billion dollar owed to the government's aggregate dependency on Jamahiriya Treasury Bills and Securities. The two years of 2011 and 2012 witnessed a noticed increase in the investment percentage because of lifting the sanctions and increase the oil prices. In contrast, due to a series of factors, the investments of the commercial banks witnessed minor increase in the investment level during 2011-2012. The main reason of this increase is the liberalization of the frozen accounts. Conversely, the small increase in the level of investment may be a good thought in order to prove the interviews statements concerning the small amount of frozen accounts away. Furthermore, since the commercial banks did not generate any profits in the stock prices, their administrations followed conservative policies and have not investment in each of the offer companies. However, the reality that the banks enlarged their shares in these companies capital which generate profitable income can be considered another element which flowed from the previous condition (IMF Report, 2000: 23).

3.6.3. The Structure Liabilities of the Libyan Commercial Banking Sector

The moneys which owed by the banks or their obligations that comprise demand and time deposits are generally customer deposits. Furthermore, the liabilities are considered obligations in order to transfer past transactions to future economic benefits. The liabilities are classified into sets to be presented on the sheet of balance according to who have the debts whether these debts are repayable in one year as current liabilities or whether they are to be preserved as long-term obligations (Ittelson, Thomas, 1998: 30). Generally, the liabilities are considered a significant fund source to the commercial banks operate in Libya. The sector's liabilities portfolios involve of reserves and capital accounts, deposits, borrowings from banks, common provision and other liabilities and contra accounts. Nevertheless, some of the items mentioned above can be classified into other sub-categories. The liabilities structure of the commercial banks operates in Libya according to their 2006-2017 classification is shown in Table 14.

Table 14: Trends Liabilities of Libyan Commercial Banking Sector during 2006-2017 in Millions Dollar.

End of	Liabilities					Total of Liabilities
	Current Liabilities			Non-Current Liabilities	Capital & Reserves	
	Demand Deposits	Time Deposits	Other Current Liabilities			
2006	2,373.8	15,479.2	204.5	1,558.5	1,856.6	21,472.6
2007	2,469.8	16,494.9	217.0	624.0	1,915.3	21,721.0
2008	7,198.5	10,353.9	145.5	1,095.4	2,018.8	20,812.1
2009	5,443.0	7,161.4	126.1	227.7	3,355.7	16,313.9
2010	6,271.3	8,490.3	78.9	313.6	4,730.5	19,884.6
2011	7,731.3	7,031.9	60.5	755.8	4,856.1	20,435.6
2012	7,805.3	11,811.9	77.3	325.1	5,128.2	25,147.8
2013	6,737.1	20,173.0	97.2	206.4	5,424.6	32,638.3
2014	8,024.0	16,370.8	127.3	352.1	5,993.2	30,867.5
2015	8,738.0	21,432.1	78.6	389.2	4,986.5	31,223.3
2016	7,126.1	17,531.4	127.3	370.1	5,322.1	31,776.4
2017	8,223.0	17,321.7	89.1	376.1	5,891.2	30,427.8

Source: The CBL 49th Annual Report Fiscal Year 2014.

3.6.4. The Growth of Banks Network

The most significant way to enter or open new market and obtain respected costumer is by the banking industry branches. Most of the services which can be provided by the head of office of the banks can be available in any banks branches. Rose stated that it is easy to open new branch for a bank instead of establishing entire new bank. In order to open n new branch, you will need into less capital, less duplication of staff and far fewer organizational hurdles to clear than are essential for getting a new bank charter if compared with establishing new bank. Nevertheless, many issues must be taken into consideration when opening new branch for any bank including design, location, customers' preferences and employing managers and staff. The budget plays a significant role in the decision of purchasing or renting new branch in the propose site (Rose Peter, 2006: 654). The Libyan banks are not narrowed their activities in the main cities only in order to promote the banking idea between the people and boost savings in many productive sectors. The main goal of this sector is to enlarge the participation in the economy development. So, the Libyan monetary authorities encourage the commercial bank to be distributed in all of the country. The branches development of the Libyan commercial banks is shown in Table 15.

Table 15: The Trend and Time-Series Analysis of the Libyan Commercial Banks and their Branches during 1964-2010.

		Establishment date	The Contribution of the Public Sector %	The Contribution of the Private Ssector %	The Contribution of Strategic Partners %
1	Sahara Bank	1958	61	25	21
2	Republic of Bank	1964	59	22	19
3	National commercial bank	1969	86.6	13.37	0
4	Al Wahda Bank	1970	85.6	15	0
5	Trade and Development Bank	1970	54	27	19
6	Bank of North Africa	1995	17	34	49
7	Bank of Safety	2006	82	18	0
8	Arab Union Bank	2003	0	60	40
9	Al Wafa Bank	2004	0	100	0
10	Oasis Bank	2004	0.65	99.35	0
11	Bank of the Mediterranean	2006	100	0	0
12	Arab Commercial Bank	2006	0	100	0
13	Al Saray Bank	2007	0	100	0
14	United Bank	2007	0	57	40
15	First Gulf Bank of Libya	2008	3	0	50
16	Al Nouran Bank	2010	50	0	50

Source: Annual Reports of the Libyan Central Bank, the Libyan Central Bank Economic

As shown in Table 15 that there is a noticeable growth in the number of banks at the commercial banks in the period between 1964-2010. The increase in the number of banks can be credited to Banking Low No 1f 1993, that permitted the creation of private banks in addition to the fast branching of the current ones.

3.7. Discussion

After discussing the Islamic banks in Turkey and some countries and discussing in details the Islamic banking windows in Libya, we clarified that Turkey came at the top of the Mediterranean in terms of its share of Islamic banks which amounted 2.9 percent on the world level in terms of its seek to expand at these types of banks and increase their number.

The Islamic banking sector in Libya and Mediterranean countries configures low levels as compared with other countries and Turkish occupies the first rank between these countries in its share which is amounted 2.9 percent followed by Egypt in one percent. The volume of Islamic finance industry exceed two billion dollar in 2016 according to the report of the World Bank. The reports of monitoring the Islamic banking in the world shows that the Islamic banking in Turkey is witnessing high growth where the side of its deals is approximated in the past year by about 52 billion dollars and the sector witnesses great growth in each of Saudi Arabia and Turkey, Egypt, United Arab Emirates. In 2015, the growth of the banking sector in Turkey is registered 21.5 percent and the Turkish Central Bank stated that the Turkish banking sector witnessed great change at this year while the Islamic banking sector is witnessed less growth than the other banks.

There are economic experts saw that the new laws and legislations in Turkey encourage on creating the Islamic banks especially where they proved that they are less banks which effected and harmed by the global crisis in 2007 because they do not depend on the interest or the future product.

Thus, it can be said that there is great gap between the Turkish Islamic banks and Libyan Islamic banking windows in terms of their great effect in the general economy and the amount of assets which existed in each branch and this due to the long history of the Islamic banking sector in Turkey and the simple laws and legislations issued by the Turkish central bank which encourage to open the Islamic finance and banks at this country. While in terms of Libya we can see that the Islamic finance is existed in 2011 and the war at this country is negatively effect on this sector and made it suffers from the war issues. In general, the Libyan banking sector and the Islamic banking windows especially needs into strategy and plans in order to promote and develop and this without the entrance of the Islamic banking into the scene. So, the related authorities must reanalyze the situation of the general banks in Libya and place recommendations for road map in order to develop those banks. However, we can say that Libya took the initiative in order to enter the Islamic rules and legislations. This is represented by configuring a committee of the scientists who specialized at this field. Libya has placed laws which have been adopted and issued to implement many legislations where the Libyan project has taken good steps in the beginning to apply the Islamic sharia and modify the transactions which implement between the people that compatible with the Islamic rules by hoping to update the legislations to include the banking transactions and other usury transactions. In terms of the obstacles and problems which face the Islamic banking in Libya can be summarized as follow:

a) **The Infrastructure of the Libyan Banks:** The Libyan banks have not any information technology technique for the modern systems of the Islamic banks and this was large obstacle which face the growth of this sector.
b) **The Obstacles of the Qualified Human Resources:** The direction in training the employees which prepared by the Libyan central bank by establishing workshops inside and outside of the bank.
c) **The Technical and Accounting System in the Bank:** Prepare the update for the scientific following and make changes in the accounting system in order to fit with the Islamic products.
d) **Focusing the Financing Policies on the Small Projects:** This include many projects such as the investment in goods and sailing by depts. This led to the deviation in the investment styles where Islamic jurisprudence complex recommended the Islamic banking windows to expand their fields and decrease the profits by usurious where the diversity in the investment styles and give the preferences in the long-term investment operations in financing is considered one of the high challenges which face the Islamic banking windows in Libya.
e) **Problems Associated to the Rules of the Libyan Central Bank:** The Libyan central bank in Libya deal with the Islamic banking windows as the case in the traditional banks especially in the loans with interests.

f) **The Multiplicity and Divergence of Jurisprudential Views:** There is no doubts that the Islamic Sharia depends on the high Islamic rules and laws. So, there are many opinions have been appeared which can be adopted by the Islamic banking windows in Libya because of the existing of Supervisory Authority in each banking window and consist of independent group for jurists specialized in the jurisprudence of transactions. This caused many problems at the officials who responsible on managing the Islamic banking windows and led to neglect some banking formulas.

From the above points we can understand that the Libyan banking reality and especially the Islamic banking windows need into strategy and work plans in order to develop and promote especially after the entrance of the Islamic banking windows. As well as, the banking staff is neglected to high extent starting from the university education of its staff until the training which we think it is not existed in Libya. The banking sector and especially the Islamic banking highly depend on the human and the information technology which is not good these days in Libya. The Libyan banking windows need into strategy and work plans in order to develop. So, the banking system must be reanalyzed and insert recommendations in order to develop those banks and not to neglect their challenges. The first of these challenges is that the National Conference chose that the Islamic banking system is the only sector which must be dealt since 2015. This is considered big challenge in itself because the examples of the Islamic banking have not good history in all of the countries and example of this is the Islamic banking system in Sudan which adopt the same adopted system in Libya and unfortunately it is not succeed until now. As well as, many countries adopt the Islamic banking beside the usurious banking system and leave the freedom of selection to the agents. Moreover, the Islamic banking is generated from a short time and its experience is still limited in spite of its spread. Thus, we can say that it is not fear to follow the Islamic banking system only in Libya especially at the current time.

The second challenge which face the application of the Islamic banking system is the history of applying the Islamic banking law which is the situation of the bankers and economists. These are the most important challenges that face the Islamic banking windows now and the application of this low in its time will include direct effect on the economic development because it is not possible to neglect the banking role in the economic process of any country. The solution or solutions are existed but still the issues where there are more important than those which is the compatibility and adoption. The first of those solutions is to extend the application period where from the practical and reality side, ten years must be available at least in order to apply this low. This long period in my opinion because this transformation needs into vision, strategy and plan and it is difficult to achieve that in few years. The first of those plan is to train the banking staff, and this starts from the university education where the existing of the Islamic banking must be available as a basic course in the college of economy in order to allow the university student to know the Islamic banking system and then prepare in the correct form for the application form.

A developed banking institute must be prepared to provide the required professional training to the current and future banking staff and this can provide accredited certificate from the institute and must be widely acceptable from the public banks. While in terms of the institute itself, the central bank must take the initiative on its creation and different banks can have shares in its creation. There is no doubt that the interest in the human staff is considered a part from the whole sector strategy. This strategy must be with specific goals and schedule of time. We think that the first of what can be applied in the banking sector is the idea of experimental project and this project must be the selection of one or more banks at most and work on transforming them to the complete Islamic banking during five years. Moreover, this must not ban the other banks from preventing the Islamic banking windows through specialized branches. Five years is required in order to allow the Libyan Central Bank and its specialized management to evaluate the performance of the banks through its following to the Islamic banking and work on correct the mistakes which may appear with time. Furthermore, this will allow the bank management to insert specialized training policy for the bank employees and must be for medium or long terms in order to graduate professional students who able to accomplish this transformation.

Transform into the Islamic banking is not impossible but everybody must realize that this transformation will not succeed with only the feeling of people who ask to judge by Sharia and prevent the usurious dealing, but it must resort to the specialized and take their opinions. Also, the international reality must be studied in the Islamic banning windows and continue slowly in order to not fail. It must be mentioned that if this experiment is failed, there will be great problems on the national economy and the Libyan citizen who still wish to see the application of this project.

CONCLUSION

The Islamic banks seek to achieve goals with humanitarian and social aspects in addition to achieve the necessary profit for the survival and growth of the banks and these banks started their increase effectively in different parts of the world. The Republic of Bank which is considered the largest bank in Libya in terms of its branches which distributed in the most regions of Libya and it is characterized by its provision to electronic services to its customers has started the work in the Islamic exchange in late time from the year of 2009 and then followed by many banks which they have opened Islamic exchange windows. While in Turkey, the development of the Islamic banks started since the eighties of the last century where the Islamic banks in this country has expanded and developed rapidly in most of the regions in turkey due to the governmental support to this sector and started their increase noticeably after the year of 2000 with increase the demand on these banks because of their lofty goals and the characteristic which they achieve. There are modern statistics have been issued recently that there are three banks in Turkey have occupied good situation within the best five banks in the Middle East in terms of the percentage of the cost and income which is considered an indicator to measure the extent of efficiency in preserving low cost. The result of income or effect play by the Islamic banks in Turkey is highly greater than the effect achieved by the Islamic banking exchange in Libya according to the success policy which achieved by the officials in the Islamic banks in Turkey. The modes of the banks started their effective effect in the Turkish economy after the year of 2000 while the Libyan banks were not highly effect on the economy because of many factors including economic and political factors and the negative factors started their increase after the revolution of the overthrow of Muammar Gaddafi regime and the war which spread in different parts of the country.

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AUTOBIOGRAPHY

Sabri EL MASSOURI, I was born in 1974, Derna- Libya. I completed my primary and secondary school education in Derna, I got my bachelor degree from Omar Al-Mokhtar University, Department of Accounting and Finance in 1997 with Good Grade. In 1999, I got a job as an employee in Ministry of Communication. I decided to complete my master study in Karabuk University by my own decision and the Libyan Cultural Office paid the university fees only to complete my master degree at the Department of Business Administration.

Address: Derna -Libya E-mail: sabrimessuri@gmail.com

Mobile: 05372927014