MIDDLE EAST TECHNICAL UNIVERSITY

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ISLAMIC FINANCE AND TURKISH CAPITAL MARKETS

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1. INTRODUCTION

Interest is strictly forbidden in Islam, but it is deeply embedded in modern financial system and in macroeconomics. Therefore, it has been a dilemma about banking system in Turkey and other Muslim countries, so this dilemma has been pushing Islamic economies to become more passive in the global arena.

Not until 1970s had been there any attempts to form a financial model without interest in order to attract Muslim businessmen to invest in and deal with modern economy. Now, it has been almost 40 years since Islamic banking came into the agenda of modern finance. Islamic finance which started as a small banking experiment in the rural areas of Egypt, has now expanded to a level where Islamic finance started to take place in many Muslim and non-Muslim western countries. Of course, in future it is seen as a well-developed banking experiment to be a competitor for conventional banking systems.

Apart from the prohibition of *riba* (interest), Islamic banking aims to equally distribute the income among the investors, has an issue of profit and loss sharing, does not concentrate on the loan repayments, but rather have a concentration of the worthiness of the project.

There are main accumulation of Islamic banks and the greatest amount of Global Islamic Investment Assets in Iran. United Kingdom makes big investments into this type of banking. There is also this kind of banks in USA, Saudi Arabia, Kuwait, Bahrain, Turkey and so on. It has not a big power in the world banking economy because it is new and we have to not forget that most banking transactions are based on interest and as it is a prohibition in Islam there are small steps in development of Islamic banking in comparison with conventional banks.

2. HISTORY OF ISLAMIC BANKING

Financial Institutions have played an important role in the history of human beings. It makes a huge transaction of money from people who have surplus of money by spending less than they earn to people who have shortage of money by spending more than earn. These institutions help to improve the economic efficiency. During 10^{th} -15^{th} centuries, Middle Easterners were engaged in financial transactions on the basis of Sharia's, which was guided by the same principles as their European counterparts at the time. Arabs from the Ottoman Empire had strong trade relationships with lots of European countries, especially Spain, and established financial systems without interest which worked on a profit- and loss-sharing basis. As time passed, European financial system became stronger and stronger and had lots of brunches in Asian and Middle East regions. It is not difficult to assume that lots of those brunches were interest-based. On a small scale, credit union and co-operative societies based on profit- and loss-sharing principles continued to exist, but their activities were very much focused in small geographical areas. It continued until the beginning of 19^{th} century when the first financial company based on Sharia's principle, Mit Ghamr savings project in Egypt, started to operate. Taking the idea of German saving banks, Mit Ghamr made possible to use small savings from the rural sector by the help of saving accounts. The main characteristic was that no interest was paid to holders of the accounts. Depositors were allowed to withdraw their deposits on demand. Furthermore, Mit Ghamr made funds more attractive to invest in projects on a profit-sharing basis. Nasser Social Bank, the first interest-free institution, was established in Egypt in 1971. At the beginning, it was planned to serve to public by providing interest-free loans to the poor, giving scholarships and giving small credits to small projects on a profit-sharing basis, but then some businessmen got an idea of having surplus funds by it. Then these businessmen took an initiative of establishing the Dubai Islamic Bank in 1975.

The most important event in the history of Islamic finance was the establishment of Islamic Development Bank (IDB) in 1975. It was formed by the declaration signed by the representatives of 23 countries that was members of the Organization of the Islamic Conference (OIC). IDB started to operate on 20 October 1975. During 1975 and 1990 Islamic banking made important steps into world market. It got respect and credibility by its theoretical development and experiences. Lots of Islamic financial institutions were formed during this period. Pakistan, Iran and Sudan had an intention of eliminating interest from their all aspects of economy and move to banking systems based on Islamic principle. Moreover, some financial products fitted with sharia were offered from some multinational banks such as Hong Kong and Shanghai Banking Corporation (HSBC), Chase

Manhattan and Citibank. It meant that lots of places started to recognize this new model and later the International Monetary Fund and the World Bank started to produce Islamic papers. Around 1990s, there was an idea of creating of infrastructure institutions supporting the Islamic financial industry and the first steps were on that way. It was not going well because needs were different, but as a result of this joint work, some important institutions such as The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM), Liquidity Management Center (LMC), The Islamic Financial Services Board (IFSB), The International Islamic Rating Agency (IIRA) came on scene.

3. THEORETICAL FOUNDATIONS OF ISLAMIC FINANCE

All doings in Islam are done according to Sunnah and Quran. Since 1960s, the prohibition of *riba* (interest) was one of the most arguable topics amongst Muslim. This is a debatable issue because this is stated in *Holy Qur'an*, *sunnahs* and *fiqh* (Islamic law).

Quran

There are lots of verses in Quran about the prohibition of interest, but especially in surah Al-Baqarah verse numbered 275, it is written that those who devour usury will not stand except as stands one whom the Satan by his touch has driven to madness; that is because they say, "trade is like usury", but Allah has permitted trade and has forbidden usury".

Sunnah

According to Sahih-i Muslim, the prophet Muhammad (peace and blessings be upon him) cursed the one who accepts interest and the one who pays it.

Scholars

According to Siddiqi, there are five reasons of prohibiting of riba (interest): it is unfair; it corrupts society; it improperly assigns other people's property; it shows the negative growth and it decreases human personality.

4. ISLAMIC FINANCE INSTRUMENTS

Islamic finance is based on rules and laws that collectively called as *shari'a*. *Shari'a* originated from three important sources, the rules of Holy Qur'an, *sunna* (practices and traditions of the Prophet Muhammad s.a.w) and *ijtihad* (the reasoning of qualified scholars). Islamic Development Bank (IDB) defines some finance instruments for supporting development projects in countries where Islamic finance is popular.

4.1 Murabaha (trade with markup or cost-plus sale)

It is one of the most widely used instruments for short-term financing. Approximately 75 percent of Islamic financial instruments contains of murabaha. It is conducted as an exchange between trader and end user. Trader buys items at a certain cost and sells it at a price that is calculated using an agreed profit margin over th costs incurred by the trader. It seems too simple, but is has to be done according to principles of Islamic finance. **Murabaha** cannot be used in purposes other than purchasing of commodity. Commodity has to be really bought by bank or any other financial institution and be under ownership and possession. After this process it could be sold to client at an agreed price.

4.2 Musawamah

This instrument is similar to murabaha. One of the conveniences is that customers can acquire assets in whatever time they want by paying the purchase price with the addition of profit in installments over a certain period of time. It works in a simple way. Bank is the main body here and it purchases certain asset from some place in the case of any requests from the customer. As the customer does not know the price of the commodity, bank puts the profit to the intial price and offers it to the buyer. Then, it up to the buyer whether to buy commodity or not. Usually, it can be seen in cases of buying some machines and real estate.

4.3 Salam

It can be explained as an agreement between buyer and seller. The seller gives a promise for supplying goods to the buyer in exchange for the payment in advance. Example of it can be seen everywhere. One of the instances is financing the equipments of the construction in order to get a new apartment from that construction in future. There is also a risk of low or high purchase price because financing is done in advance and it is not known whether price of the apartment will be lower than amount of financing.

4.4. Mudaraba (profit sharing)

It is similar to an investment fund where managers are handling a pool of funds. The capital is invested in large investments and terms for risk and profit sharing are different for each investment. Maturity changes from low to medium terms. There are two agents in this structure who have contract between them: **Rabb ul Mal** (investor) that contributes money and **Mudarib** (manager) who earns a profit share. This instrument is also called as profit sharing – loss bearing because investors take losses on themselves, but manager earns a profit share. If there are any losses, firstly, losses have to be covered and then profit will be shared between both parties.

4.5. Musharaka (equity participation)

This is similar to joint venture. Both investor and manager contribute to capital and agree to share returns that determined in advance. Usually, it is used for financing fixed assets and working capital of medium and long-term duration. It is accepted as one of the purest instruments because it does concern about profit and loss sharing. Losses are determined by the basis of proportional capital contribution. There are two basic types of **musharaka**: *Sharikah al milk,* partnership based on joint ownership and *Sharikah al uqud,* partnership based on a contractual relationship.

4.6. Ijara (leasing)

This transaction is Islamic equivalent of a lease. It consists of 10 percent of Islamic financial instruments. Different forms of leasing are permissible, including leases where aportion of the installment payment goes toward the final purchase (with the transfer of ownership to the lessee). Like in **mubaraha,** the financier buys assets from a seller. Rather than selling it to customer like in mubarah, financier leases it to customers. While the asset are under the usage of customer, monthly payments are made to the financier.

4.7. Sukuk

It is Islamic equivalent of bond. Usually, sukuk is about tangible assets. Ownership is transfered to the sukuk holder along with all benefits and risks. This gives it characteristics of both debt and equity. The basic principle of sukuk is that an ownership of it allows the holder get proportional share of returns generated by assets.

5. ADVANTAGES AND CHALLENGES OF ISLAMIC FINANCE

❖ *Advantages*

As it was emphasized before, the main principles of Islamic banking are based on free trading. All actions are followed by the *Holy Qur'an, ijtihad* and *sunnas.* The advantages of this popular type of banking can be concluded as:

- Both the depositor and bank share the loss or profit rather than accepting risks by the depositoes. According to the Islamic norms and rules, the output has to be fairly distributed among the both parties.
- On of the best sides of this banking is that it is not concentrating on the repayment of loans or interests, rather, it depends on worthiness and how much profitable will be the project.
- As it is not dealing with interest rates, uncertainty is relatively low. In other words, the risk of bankruptcy is not so high as it is expected in conventional banking.
- There is not actually the barrier between the savers and investors.

❖ *Disadvantages*

These advantages help the system to operate, but there are some challenges in implementing them. There some problems that Islamic banking is facing with:

- The competition is very tough. Since this banking started to operated globally nearly two and a half decades ago, it is very difficult to adapt to strong and competitive environment. Althogh, there is such a big competition, functioning of non-Islamic banks is differenet and it is up to Islamic banks to be efficient and effective.

- Improving in technology leads to efficient operations and to adopt to this, Islamic banks have to cooperate with other firms to build a good improved infrastructure. This kind of collaboration might be a problem because their operations can be dependenton interests and Islamic banks would not cooperate with firms whose operations based on this.
- As non-conventional banking is operated based on *Shari'a* rules, new products can be adopted if *Shari'a* scholars approve them.

6. PRACTICES OF ISLAMIC FINANCE IN THE WORLD

Thirty years ago, Islamic banking was thinking about the adaptation and taking part in even a small part of the global banking sector. However, nowadays it is growing tremendously and is a popular trend in developed banking systems. The development of it means that it could be a substitute for commercial banking. On the other hand, it has a long way to improve itself and fix its mistakes in order to be on par with other well-developed models of financial intermediation.

6.1. Iran

The greatest amount of global Islamic banking assets is owned by Islamic Republic of Iran. The main push for the development of Islamic banking was the changing of banking laws and the approval of the new interest free Islamic banking regulations in 1979. 7 out of top 10 banks are located in Iran. Bank Jamhuri Islami Bank is a Central Bank of Iran and it is a regulatory body of Islamic banking there. It is also noticeable that there is no Shari'a board for banks individually.

6.2. Saudi Arabia

The world's largest Islamic bank, Al – Rajhi Bank, is a Saudi Arabian bank. It is the largest investment bank in Saudi Arabia. It is also noticeable that the Saudi Arabia was the last country in GCC region allowing Islamic banking to operate. There are also several banks that have merged with some international banks and they are operating as Islamic banks. The importance of Saudi Arabia's potential cannot be understated because according to the Islamic Research and Training Institute, over 10 % of global Islamic Banking assets are owned by this country.

6.3. Malaysia

Islamic finance started to improve after the operation of its first Islamic bank in 1983 and, in 1984, settlement of the first *takaful* company. It had a system similar to Bahrain's dual banking system. In other words, it was allowing the conventional banks to operate by offering Islamic banking products by applying Islamic rules and regulations. Central Bank of Malaysia (Bank Nagara Malaysia) is a regulatory body in banking. Shari'a boards are separately settled at institutional level in the BNM.

6.4. Bahrain

Bahrain has two-sided banking system: Islamic banks operate along with conventional banks. Bahrain Islamic Bank, the first Islamic bank, was established in 1978 with the purpose of providing commercial services. Then, after nearly 20 years, it has become the center of Islamic finance in the Middle East. According to the statistics of February, 2005, total assets of all Islamic banking operating in this country are $5.9 billion. Due to its geographical position, heart of the Gulf region, it attracted lots of international Islamic banks and organizations such as Citi Islamic Investment Bank, Liquidity Management Center (LMC), International Islamic Rating Agency (IIRA) and International Islamic Financial Market (IIFM).

6.5. United Kingdom

According to the Wilson's research in 1999, London has gained the status of one of the most important Islamic financial center in the West. The main reason of this was that UK had good financial specialists and companies operating there had global reputation. Despite the big size of financial services, there are seven active Islamic banks in London, three of which are Western owned and the United Bank of Kuwait and the Islamic Bank of Britain are London-based, but they are of Middle Eastern ownership.

Islamic banking was firstly operated after the establishment of Al Baraka International Bank in London. Its customers were mainly rich businessmen from Middle East coming to UK for summer holidays. The important development in Islamic finance in UK occurred after establishment of the Islamic Bank of Britain In September, 2004.

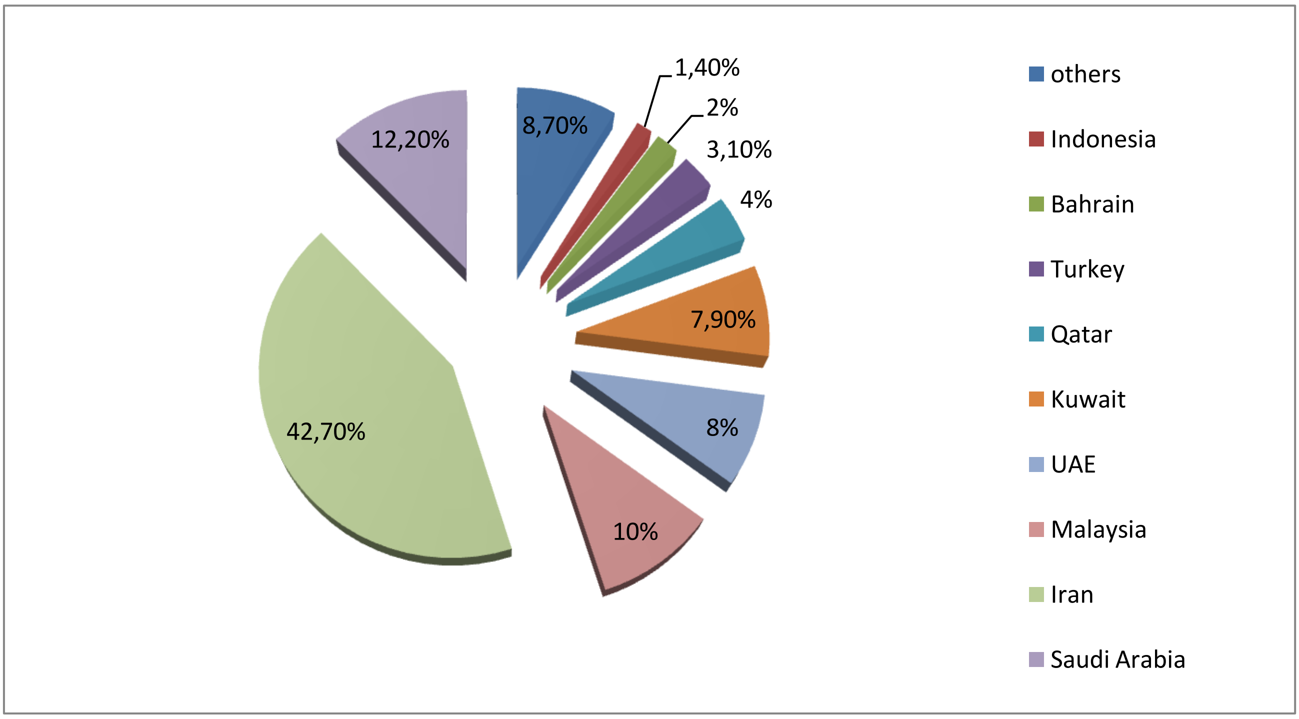
6.6. United States of America

Although the largest Muslim community in the West is in the USA, the development of the Islamic banking was slower than in Europe. The events of 11 September 2001 made a slow progress in establishments of Islamic Institutions. All organizations related with Islam were thought to be terrorist funding. On the other hand, the growing Muslim population is forcing the government to open Islamic banks. As a result of some actions done by Muslim population, the Devon Bank, LARIBA, the Shape Financial Corporation and Guidance Financial Group were set up in different regions in US.

6.7. Germany

Approximately 4 million Muslim populations living here made a huge demand on Islamic finance. There are not enough banks for Muslims because German banking rules are not suitable. According to Zaid El Mogaddedi, the managing director of the Institute for Islamic Banking and Finance in Frankfurt, German financial administration has not done anything to address the tax treatment of Islamic products. The main reason of this is said that the Muslim population is not very rich to make investments. There are some steps in opening the first Shari'a based bank called Kuveyt Turk in Frankfurt.

Table 1: (Source: Share of Global Islamic Banking Assets (18 March 2013) - Tehran Times)



7. PRACTICES OF ISLAMIC FINANCE IN TURKEY

7.1. Introduction

Islamic finance has firstly come to world agenda with their establishment in Egypt in the second half of the 20th century and many countries, Muslim or non-Muslim, including Turkey started to benefit from Islamic finance institutions and their new, different instruments. As for the case of Turkey, origin of Islamic banking in Turkey goes back to 1985, when the legislation about interest-free banking was passed by the government of Prime Minister Turgut Özal. Up until then "under the pillow" idle funds were not brought in the economy because of hesitations of public about interest. In order to convey idle funds into the economy, Islamic finance institutions were established named as 'Special Finance Houses' by integrating them to the current banking law of Turkey.

Six special finance institutions were founded until 2006 and they earned their status as 'Participation Banks' in that year. Today, we have participation banks and they are said to be prospering and thriving in rich Turkish population who want to make use of Islamic finance institutions and their diverse instruments even though their share in Turkish banking sector is only 5.5%.

7.2. Reasons for the Establishment of Islamic Finance Institutions in Turkey

❖ *External Factors*

Constant and rapid increases in the price of oil since 1974 caused to accumulation of substantial amount of foreign currency reserves. The constant increases in oil prices also affected the development of oil-importing countries like Turkey negatively. Therefore, Turkey made an effort to attract foreign currency reserves which were accumulated in oil-exporting countries. It was possible because important amount of petrodollars were not being processed in Western banks and other financial institutions due to interest revenues. In that sense, many investors who could not find any place to invest in the Western world sought a way to invest their funds in interest-free institutions based on the principle of participation to "profit and loss" (Yahşi, 2001).

Turkey had undergone some changes in its financial system so that it could attract oil-exporting countries' funds since financial systems of those countries and Turkey would not work in harmony. Thus, a new type of financing that would be in accordance with those countries came into the Turkish agenda (Bayraktar, 1988). With the establishment of Special Finance Houses, new investment opportunities would be gained as the financial and economical relations with those countries become denser and stronger (Tuncer, 1985).

- *Interval Factors*

Participation Banks aim to raise under-the-mattress savings and funds of conservatives who stay out of the current banking institutions owing to their religious affiliations. According to Aypek, there is a need to earn those savings and funds that are in the form of gold, foreign currency, or immovable property and place those funds into the production process. Therefore, there will be more extra funds in the economy as the total production in Turkey level increases. That is only possible through establishing a banking system that is in the same direction of the religious view of those conservatives (1988).

Günal argues that neglecting those people's savings and funds would not be wise since Turkey suffers from the deficit of funds in the economy. Both external and internal factors made the establishment Islamic finance institutions necessary with their exclusive and interest-free financial instruments (1984).

Additionally, advantages of these institutions cannot be disregarded in the situation of Turkish economy which usually faces financial deficit, high inflation, and unemployment. Moreover, in an interest-based financial system, investment becomes secondary; thus, decreases in investments reduce entrepreneurship opportunities, employment, and demand to consumption in the market. In this way, demand to bank funds may decline with the tendency to investments and it may cause the inflationist oppression of Central Bank over the financial system to decrease.

7.3. Evolution of Islamic Finance in Turkey

Even though the origins of interest-free banking is too old, Islamic banking in today's sense was brought into the agenda in 1950s. Academic studies were being done about non-interest banking especially by Pakistani researchers and economist Mohammed Uzair was the first researcher to study it (Başaran, 2003). The first application of Islamic banking was seen in Egypt and the first modern Islamic bank was established in Cairo, 1972. In 1973, many Islamic countries gathered and formed a financial committee so as to put together an international economic system that would serve to the benefits of Islamic countries by using accumulated wealth of those countries. Finally, with the initiative and support of Saudi Arabia Faisal bin Abdulaziz Al Saud, 43 Muslim countries founded Islamic Development Bank. Also, Turkey was one of the founding members of Islamic Development Bank.

The first attempts were made in 1970s in the coalition time of Republican People's Party (CHP) and National Salvation Party (MSP). The first institution based on profit-loss participation principle was DESİYAB (State Industry and Workers Mutual Bank-(Tr)- Devlet Sanayi ve İşçi Yatırım Bankası). The aim of DESİYAB was to transfer the savings of workers in Europe to investments. It was established in 1975, but it changed its financial structure to interest bearing one (Turgut, 2014).

Increases in the number of Islamic finance institutions and their successful developments in such a short period of time throughout the world encouraged the establishment of interest-free banks in Turkey. Therefore, non-interest banking came to the agenda again after 1980 with the election of Turgut Özal as PM. When the Mainland Party (ANAP) came into the power, one of the current issues was about non-interest banking. Therefore, Özal prepared the ground for the establishment of Islamic Finance Houses by enacting a decree numbered 83/7506 on 16.12.1983 (Günal, 2008). In short, Islamic finance institutions were allowed to be established under the name of "Special Finance Houses" in 1983. S&P bank analyst Göksenin Karagöz claims that the main purpose of Özal was to extract under-the-mattress savings and include them to the economy with foreign capital (2002). After the legislation process, Prime Ministry Undersecretariat of Treasury and Foreign Trade (HDTM) on 25 February 1984 and Central Bank of the Republic of Turkey (TCMB) on 21 March 1984 issued communiqués to make the houses active in the financial system and gave detailed statutes about their operations (Eken, 2005).

Despite the fact that Islamic finance institutions completed their legal status on 25 February 1985, the legal regulation changed on 19 December 1999 and their establishment and organizations were tied to banking law with 4491 numbered law in Banks Act No. 4389. Before that, their status was only regulated in the statutory decree of 83/7506 and this enactment was acting as a barrier in front of opening new branches of Special Finance Houses since they had no law. Being tied to Banks Act was a turning point for Special Finance Houses. Ex-Albaraka Türk Vice-General

Director Ahmet Ertürk attracts our attention to this point and states “This is a revolution for us. This is the second important step after 1983 decree of allowance of the establishment of Special Finance Houses.” (Ergan & Mert, 2000). With a new law numbered 4672 and enacted on 12.05.2001, there had been some changes in Banks Act and “Guarantee Fund” was formed for Special Finance Houses. With these arrangements, unjust competition in front of Special Finance Houses was eliminated.

In 2005, Special Finance Houses were completely integrated into the Banks Act and equalized with other depository and investment institutions. Their name was also altered to Participation Banks in that year. Eren Turgut argues that this change of Special Finance Houses to Participation Bank created a positive effect for Special Finance Houses because it eliminated the confusions of laymen about the structural organization of Special Finance Houses if it was a leasing company or exchange office. Also, participation part of the name gives the idea of which type of organization is Participation Banks (2014).

Participation Banks was easily adopted and internalized by the Turkish society in terms of their accumulated funds, total turnover, and project capacities. Therefore, there has been several Participation Banks in Turkey since 1985. Respectively,

- Al-Baraka Turkish Finance House Inc. in 1985,
- Faisal (Family) Finance House Inc. in 1985,
- Kuwait Turkish Evkaf Finance House Inc. in 1989,
- Anadolu Finance House Inc. in 1991,
- İhlas Finance House Inc. in 1995, and
- Asya Finance House Inc. in 1996
- Türkiye Finance Participation Bank in 2005

were established. 3 of them were established by foreign investors while other four of them were established by domestic funds. Some of them bankrupted and some of them merged with each other and changed their name. Today, only four of those Participation Banks (Al-Baraka, Kuwait Turkish, Türkiye Finans, and Asya Participation Banks) are still in effect.

Lastly, there are rumors about that three public banks will be converted into Islamic finance institutions according to Hüseyin Deniz’s report on the news (2014). Participation banks have been serving and supporting the Turkish economy for nearly 30 years having the characteristics of

Venture Capital institutions by providing enormous amount of money that are mostly earned by transferring idle funds into useful investment opportunities.

Also, Participation Index (its index code is KATLM) was launched on 6 January 2011 with the sponsorship of all four Participation Banks, index consultancy by Bizim Securities Inc. and calculations by Istanbul Stock Exchange. Index rules are in accordance with Islamic rules, they claim and currently, there are 30 firms such as Turk Telekom, Nuh Çimento, Albaraka Turk and so on in the Participation Index. The index is included in the markets of Istanbul Stock Exchange National Market, Real Estate Investment Trusts and Capital Investment Trusts, Group A and B.

7.4. All Islamic Finance Institutions in Turkey

7.4.1. ALBARAKA TURK PARTICIPATION BANK

Albaraka Turk is the first finance institution and the pioneer in the field of interest-free banking. It completed its establishment in 1984 and started its commercial activities in the beginning of 1985. Albaraka Turk continues to operate according to the Law of Banking numbered 5411. Albaraka Turk was founded by Albaraka banking Group (ABG), one of the prominent groups of the Middle East, Islamic Development Bank (IDB) and a native industrial group of Turkey, which served the Turkish economy for more than half a century. As of 31 March 2014, in the partnership structure of Albaraka Turk, foreign partners are 66.10%, native partners are 10.82% and shares open to the public is 23.08%**.**

Table 2:

SHAREHOLDERS	Amount (TL)	Share(%)
Foreign Shareholders	**594.902.934,31**	**66,1**
Albaraka Banking Group	486.523.265,68	54,06
Islamic Development Bank	70.573.778,85	7,84
Alharthy Family	31.106.364,35	3,46
Others	6.699.525,43	0,74
Domestic Shareholders	**97.344.189,94**	**10,82**
Publicly Listed	**207.752.875,75**	**23,08**
TOTAL	**900.000.000**	**100**

(Source: http://www.albarakaturk.com.tr/)

Albaraka Turk collects funds through current and participation accounts and in turn circulates the funds into the economy by corporate finance, individual finance, financial leasing and profit/loss sharing based on projects, investments, and so on. It is only authorized to provide various financial and banking services through interest-free banking activities and applications.

Albaraka is not only operating in Turkey, but also in many other countries in the regions of The Gulf, Middle East and South Africa where its main partner Albaraka Banking Group operates. This wide network of connection provides its customers rapid, superior, and secure foreign trade (import, export and foreign Exchange). Albaraka's network is formed of over 796 banks operating in more than 72 countries around the world, from South Africa to Morocco, from Singapore to U.K, and from Australia to Kazakhstan.

Albaraka Turk has been operating, as of 10.05.2014, with its 136 branches all over the country and 1 branch abroad in Erbil; for a total of 137 branches. 57 of the branches are in Istanbul and the rest is placed in the prominent industry and trade centers of Turkey. Its total number of ATMs has increased by 14% and reached to 170 ATMs. Additionally, there has been significant increase in the use of bank cards. At the end-of 2013, the total number of credit cards issued by Albaraka Turk increased by 23% and reached to 113,890. Also number of business cards increased by 49% and reached to 41,297 and bank card use increased by 19% and reached to 190,702. Number of personnel working in Albaraka Turk is 3057 (Albaraka Turk Annual Report 2013).

Albaraka Turk has a market share of 17.92 among all participation banks at the end of 2013 and it was 17.54% in 2012. It also showed 33% increase in funded credits and reached to a level at 12,060 TL million. Albaraka Turk proved its financial strength with its high 17.7% return on equity despite financial and macroeconomic difficulties as it is shown in the table.

Table 3:

KEY FINANCIAL INDICATORS**	2012	2013	CHANGE(%)	KEY RATIOS (%)	2012	2013
Total Assets	12,328	17,217	40	*Funded Credits* / Total Assets*	73.8	70.0
*Funded Credits**	9,100	12,060	33	*Collected Funds / Total Assets*	98.6	96.3
Collected Funds	9,225	12,526	36	*Return on Equity*	17.0	17.7
Shareholders' Equity	1,218	1,497	23	*Return on Assets*	1,7	1.6
Net Profit Share Income	486	625	29	*NPL Ratio*	2.4	2.3
Net Fees & Commissions Income	113	113	0	*Net NPL Ratio*	0.3	0.2
Net Profit	192	241	26	*NPL Provisions Ratio*	88.8	90.6
Number of Branches	137	167	22	*CAR*	13.0	14.9
Number of Personnel	2,758	3,057	11			
Funded Credits per Branch	66.4	72.2	9	* Including financial leasing		
Collected Funds per Branch	67.3	75	11			** TL millions

7.4.2. FAISAL-FAMILY FINANCE HOUSE INC.

Faisal Finance House was founded by 90% foreign started to operate on 2.05.1985 with the approval taken from Central Bank on 23.01.1985 and from the undersecretary on 12.03.1985. The main branch is located in Istanbul. At the end of 2000, OLFO SA, a company in Switzerland, owned 96.54% of Faisal Finance and it increased it 5 billion TL original investment to 25 billion TL in 1989, to 65 billion TL in 1991, and to130 billion TL in 1993 (Abbas Güneş, 2002).

Then, Sabri ÜLKER acquired 38.82% and an American finance group bought the rest of the institution on 11 May 2001. On the very same day, extraordinary general meeting was held and new name for Faisal Finance House became Family Finance House. Also, the capital of the house reached from 2 trillion to 50 trillion and shares of Sabri ÜLKER increased to 98.63%. Finally, it merged with Anadolu Finance house in 2005 and named as Türkiye Finance Participation Bank (Emel İştar, 2009).

7.4.3. KUVEYT TURK PARTICIPATION BANK INC.

Kuveyt Turk was established in 1989 operating in accordance with the principles set by the Cabinet Decree No. 831/7506 of 16.12.1983. In December 1999, just like any other Private Financial Institutions, Kuveyt Turk became subject to the Banking Law numbered 4389. The title was altered to be Kuveyt Turk Participation Bank Inc. in 2006.

Regarding the capital of Kuveyt Turk, as for 15 April 2014, 62.24% is owned by Kuveyt Finance House, 18.72% by General Directorate for Foundations, 9% by the Islamic Development Bank, 9% by the Public Institution for Social Security, and 1.04% by other shareholders.

Table 4:

Shareholder	Amount (%)	Share (%)
Kuwait Finance House	1.282.170.000	62.24
T.R. Prime Ministry Directorate General of Foundations	385.616.000	18.72
Islamic Development Bank	185.392.307	9
Kuwait Public Social Security Institution	185.392.307	9
Others	21.423.111	1,04
TOTAL	**2.059.993.725**	**100**

(Source: kuveytturk.com.tr)

Since its foundation, Kuveyt Turk has adopted interest-free banking system and it was awarded gold, silver and bronze medals due to its achievements in the area of export, investments and participations in variety of sectors on different dates by public institutions and associations such as Istanbul Chamber of Commerce and Istanbul Ready-Made Clothing Exporters' Association the Undersecretariat of Treasury and Foreign Trade.

Table 5:

Summary Financial Highlights (TL Thousand)*	**2011**	**2012**	**2013**
Profit Sharing Income	965.771	1.296.118	1.439.926
Profit Sharing Expense	425.387	599.570	609.655
Net Fee and Commission Income	64.705	75.234	84.971
Other Income	181.758	237.126	339.961
Other Expenses	541.391	699.652	885.993
Provision for Taxes	50.414	59.100	68.867
Net Profit for the Period	195.042	250.156	300.343
Total Assets	14.897.592	18.910.513	25.893.542
Total Shareholders' Equity	1.437.978	1.684.037	2.302.049
Capital Adequacy Ratio (%)	16,02	13,97	14,24
*Figures are not consolidated.			

(Source: Kuveyt Turk Annual Report 2013)

Kuveyt Turk succeeded to grow with a rate of 37% in the year of 2013 and it has been operating, as of 08.05.2014, with its 278 branches all over the world. Much or less 120 of the branches are located in Istanbul and the rest is placed in the prominent industry and trade centers of Turkey. Its total number of ATMs is 293.

Additionally, there has been significant increase in the use of bank cards and the total number of credit cards issued by Kuveyt Türk increased by 43.47. Also, bank card turnover increased by 24% compared to 2012. Number of personnel working in Kuveyt Turk is 4642 and it was only 3939 at the beginning of 2013. (Kuveyt Turk Annual Report 2013).

Kuveyt Türk has a market share of 29.1% among all participation banks at the end of 2013 and it also holds almost half of the all precious metal among other participation banks. Kuveyt Türk affirmed its financial strength with its high 37% on both return shareholders' equity and total assets as it is shown in the table above.

7.4.4. ANADOLU FINANCE HOUSE

Anadolu Finance House started to operate on 06.11.1991 with law numbered 96/3182 and with the decree numbered 83/7506 in Ankara. It was the first finance institution that was established with 100% domestic capital. It was established by HES Group from Kayseri. In 1998, it moved its headquarter to Istanbul and a year later, all of its capital was acquired by Boydak Group that was a pioneer group in the furniture, home textile, and cable sectors (Güneş,2002).

In 2005, Family Finance House merged with Anadolu Finance House in accordance with Banking Regulation and Supervision Board Decision No. 1685 dated 19.08.2005. Then, both institutions changed its name as Türkiye Finance Participation Bank Inc. taking the approval from Banking Regulation and Supervision Board by decision numbered 1747 and dated 30.11.2005 (Utku, 2007).

7.4.5. İHLAS FINANCE HOUSE

İhlas Finance House Inc. was established on February 16, 1995 with one trillion original capital which 90% of the shares was owned by İhlas Holdings Company and it started to operate on April 28, 1995. So, it was given the title “the institution that has the highest shareholders’ equity in its sector”. On 26.10.1995, 8% of İhlas Holdings’ shares were transferred to Turkey Religious Fountain (Türkiye Diyanet Vakfı), and then 10% to Islamic Development Bank, then 15% of the shares were offered to public. Therefore, İhlas Finance House became the first finance house whose shares were being processed in Istanbul Stock Exchange. Only within 2 years it became the industry leading institution and it became an international by opening an agency in Frankfurt.

Ihlas Finance House was closed during the crisis of 2000 and 2001 while the other five Islamic banks were survived. The Banking Regulation and Supervision Agency of Turkey (BRSA) cancelled the license of Ihlas Finance on 10 February 2001. The BRSA officially cited some reasons for the cancellation. Firstly, it stated that Ihlas Finance House had appropriated approximately 1 billion US dollars, which is almost the entire deposit value. Secondly, according to the BRSA’s statement, the company was not fulfilling its responsibilities and obligations to the public which is considered to be a violation of banking rules. Lastly, the company was making many substantial investments to its subsidiaries and subsidiaries’ agents. In summary, control failures, management failures, and regulatory failures brought the end of the company (Iqbal and

Mirakhor, 2011). After that, Ihlas Finance House announced that they would pay all shareholders' and account holders' money as they had more revenue than their dept, so nobody needs to worry about that, but it did not go as they said. Today, there are still 68 thousand account holders who are waiting to be paid their 398 million dollars and 168 million Euros. Liquidation committee, established after the cancellation of the license of the company, claimed that they would be done paying their debts until 2016 according to news on the webpage of Sabah dated 19th December 2009 news. Additionally, as of 2008, shareholder structure of the sold-off Ihlas Finance is shown in table below.

Table 6:

NAME OF THE PARTNER	TOTAL (TL 1000)	% PERCENTAGE
İHLAS HOLDİNG A.Ş.	5,027	50.27
PUBLIC	3,469	34.69
ISLAMIC DEVELOPMENT BANK	1,000	10.00
İHLAS PAZARLAMA A.Ş.	504	5.04
TOTAL	10,000	100.00

(Source: www.ifk.com.tr)

7.4.6. BANK ASYA PARTICIPATION BANK INC.

Bank Asya was founded on October 24th, 1996 in Istanbul as the sixth private finance house of Turkey and the head office was firstly opened in Altunizade. Before 2005 its name was Asya Finance House Inc., and its shares were to be traded firstly in Istanbul Stock Exchange, 2006. Also, Bank Asya became title sponsor for the First League of Turkish Football Federation in 2008. Today, Bank Asya is the biggest and the first finance house having ISO 9001 Quality Management System Certification among other participation banks. Also, it was given the award of "Best Participation Bank Turkey 2013" by Global Banking & Finance Review Awards.

Bank Asya had original capital of 2 million TL and current paid up capital is 900 million TL, and it has a multi-partnered structure based on domestic capital. The percentage of shares open to public is 53.47. Other than public, there are also 196 shareholders of Bank Asya. As of 31 March 2014, shareholder structure of Bank Asya Participation Bank is shown in the table below.

Table 7:

SHAREHOLDER	AMOUNT (TL)	SHARE (%)
Ortadoğu Tekstil Tic. San. A.Ş.	44,022,478	4.89
Forum İnşaat Dekorasyon Turizm San. ve Tic. A.Ş.	34,667,791	3.85
Osman Can Pehlivan	29,976,000	3.33
Sürat Basım Yayın Reklamcılık ve Eğitim Araçları San. Tic. A.Ş.	24,271,960	2.7
BJ Tekstil Tic. ve San. A.Ş.	20,350,000	2.26
Others	265,480,337	29.5
Publicly Listed	481,231,434	53.47
TOTAL	900,000,000	100

(Source: http://www.bankasya.com.tr)

In 2013, 30 new branches were opened and total number of Bank Asya branches reached to 281 showing 11.95% increase. Also, there has been a significant change in the number of ATMs in 2012 there were 673 ATMs, and at the end of 2013, the number increased by 43.1% and reached to 963. As for the number of personnel working with Bank Asya, total number increased to 5,074 at the end of 2013 (Bank Asya Annual Report 2013). Also, at the end of first quarter of 2014, market share of assets of the company in banking sector became 1.29% and in participation banking sector became 23.9%.

Moreover, both total assets and cash credits increased by almost 30% in 2013 while both collected funds and non-cash credits increased by almost 17%. As the paid-in capital remains the same amount, equities increased by 6.89% and net income for the period decreased by 5.14%.

Table 8:

Main Financial Indicators (Million TL)	**2012**	**2013**	**Change (%)**
Total Assets	21,390	27,785	29,9
Cash Credits (*)	16,307	21,257	30,35
Collected Funds	15,742	18,512	17,59
Equities	2,349	2,511	6,89
Paid-in Capital	900	900	0
Non-Cash Credits	7,977	9,338	17,06
Net Income for the Period	190	181	-5,14

(*) Cash credit figure includes leasing.

As for main financial ratios, a remarkable decrease in the ratio of collected funds/ total assets while the ratio of collected funds that turns into credits increased from 103.59% to 114.83%.

Table 9:

Main Financial Ratios (%)	**2011**	**2012**	**2013**
Cash Credits / Total Assets (*)	78.63	76.24	76.51
Collected Funds / Total Assets	72.12	73.59	66.62
Capital Adequacy Ratio	13.31	13.60	14.27
*The Ratio of Collected Funds That Turns into Credits ***	110.97	103.59	114.83

(*) Non-performing credits have been added to the cash credits and assets total with the gross balance.
(**) The ratio of collected funds that turn into credits has been calculated by diving the cash credits balance to the balance of collected funds.

7.4.7. TÜRKİYE FİNANS PARTICIPATION BANK INC.

Türkiye Finance Participation Bank was founded with the voluntary merger of the two leading companies Family Finance which was owned by Boydak Group and Anadolu Finance owned by Ülker Group with Banking Regulation and Supervision Agency's Decision No. 1764 dated 28.12.2005.

As for 31 December 2013, 66.27% of the shares of Türkiye Finans was acquired in 2008 by The National Commercial Bank (NCB), which is the largest bank in Saudi Arabia and one of the important banks in the Middle East. 22,09% of the shares are still held by Boydak Group and 11.57% is held by Ülker Group.

Table 10:

SHAREHOLDERS	SHARE AMOUNT (1000 TL)	SHARE RATIO (%)
NATIONAL COMMERCIAL BANK	1,176,369	66.27
GÖZDE GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI	205,405	11.57
(HACI) MUSTAFA BOYDAK (1934)	41,173	2.32
BOYDAK HOLDİNG INC.	39,213	2.21
BEKİR BOYDAK	33,269	1.87
MEMDUH BOYDAK	33,269	1.87
MUSTAFA BOYDAK (1963)	33,250	1.87

YUSUF BOYDAK	31,309	1.76
ŞÜKRÜ BOYDAK	27,730	1.56
HACI BOYDAK	26,678	1.50
OTHERS	128,054	7.2
TOTAL	1,775,000	100

(Source: http://www.turkiyefinans.com.tr/)

In 2013, Türkiye Finance has received awards and recognitions in different categories from respected national and international institutions. Examples are Turkey's Best Participation Bank Award from World Finance - Islamic Finance Awards (London), Participation Bank of the Year Award from Ekovitrin Magazine, Turkey's Best Call Center (with less than 500 seats) Award in 8th Turkey Call Center Awards, Respect for People Award from Kariyer.net, and so on.

Türkiye Finance Participation Bank's total market share of assets among participation banks was 24% in 2011 and 25% in 2012. In 2013 it increased to 25%. Within the banking sector of Turkey, Türkiye Finance raised its market share from 1.3% to 1.5% in terms of total assets, while the market share of participation banks increased from 5.1% to 5.5%. As for total assets, they increased by 43% in 2013, exceeding TL 25 billion while the total size of collected funds surged by 32% to reach TL 15 billion. Also, Türkiye Finance succeeded in raising its net profit by 16% to TL 329 million, demonstrating a better performance than the sector, maintaining its title as the "most profit-generating participation bank" for the last 3 years in a row (Türkiye Finance Annual Report 2013).

Table 11:

KEY FINANCIAL INDICATORS**	2012	2013	CHANGE(%)
Total Assets	17,616,504	25,126,629	42.63
*Total Loans**	13,068,000	18,290,000	39.96
Collected Funds	11,429,536	15,141,718	32.48
Shareholders' Equity	2,125,162	2,522,381	18.69
Net Profit Share Income	792,111	874,912	10.35
Net Fees & Commissions Income	108,231	128,272	18,52
Net Profit	283,573	329,277	16.12
Number of Branches	220	250	13.64
Number of Personnel	3,595	3,990	10.99

Also, Türkiye Finance managed to open 30 new branches in 2013, raising the number of branches by 14% from 220 to 250 and the number of the personnel by 11% from 3595 to 3990 in

2013. These statistics again demonstrate the more rapid growth of Türkiye Finance than the sector. In the area of ATM banking, it also raised its number of ATMs from 271 to 415. However, Türkiye Finance's capital adequacy ratio fell from 14.76 in 2012 to 12.81% in 2013 because of the rapid growth of the funds that was supplied by Türkiye Finance.

Table 12:

KEY RATIOS (%)	**2012**	**2013**	
Total Loans / Total Assets*	74.18	72.79	* Including financial leasing
Current Accounts/Collected Funds	22.12	22.72	
Return on Equity	15.17	14.17	** TL millions
Capital Adequecy Ratio	14.76	12.81	
NPL / Loans	2.74	2.41	

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

Banking system of Turkey can be grouped into three main categories: Participation Banks (Islamic Banks), Deposit Banks (Conventional Banks), and Development and Investment Banks. All three types of banking are regulated by the Banking Regulation and Supervision Agency (BRSA) under a single Banking Law and associated regulations. BRSA regulates and supervises all aspects of banking. Also, the volume of Turkish banking sector for 2013 is shown in the table by categorization of assets, deposits, and loans volumes.

Table 13:

BANKS	Nr. of Inst.	IN ASSETS VOLUME		IN DEPOSITS VOLUME		IN LOANS VOLUME	
		Mio TRY	SHARE (%)	Mio TRY	SHARE (%)	Mio TRY	SHARE (%)
Deposit Banks (Conventional Banks)	31	1.566.189	90,4	887.824	93,5	963.701	89,5
Participation Banks (Islamic Banks)	4	96.086	5,5	61.495	6,5	67.219	6,2
Development and Investment Banks	13	70.136	4,1	0	0	46.575	4,3
Total	48	1.732.411	100	949.319	100	1.077.495	100

(Source: BRSA reports)

In 2013, the banking industry's total assets expanded by 26.4% to TL 1.732 trillion, while that of participation banks increased by 36.7% to TL 96 billion. Owing to the impact of rising net interest revenues, the banking industry's net profit increased by 4.9% while the net profit of participation banks climbed by 16.9% to almost TL1.1 billion. Also, participation banks opened a total of 136 new branches in 2013, and they still continue to grow rapidly. The total number of the branckes reached to 966 and 4 of them are overseas branches. As for the number of staff of all participation banks, it showed 9.2% increase and aggregated at 16,763. Lastly, the banking industry's capital adequacy ratio stood at 15.4% with a 14% capital adequacy rate for participation banks.

TABLE 14: Participation Banks & Banking Sector Main Financial Indicators

FINANCIAL TOPICS		PARTICIPATION BANKS			BANKING SECTOR		
		December 2012	**December 2013**	**Change (%)**	**December 2012**	**December 2013**	**Change (%)**
FUNDS COLLECTED	*TL*	28,545	36,696	28.6	527,577	596,694	13.1
	FC	15,371	20,267	31.9	237,428	331,635	39.7
	YP-Mine	4,282	4,532	5.8	18,883	20,989	11.2
	TOTAL	48,198	61,495	27.6	783,888	949,318	21.1
FUNDS ALLOCATED		50,031	67,248	34.4	829,597	1,094,132	31.9
NON-PERFORMING LOANS (NET)		377	799	111.9	5,808	6,986	20.3
TOTAL ASSETS		70,279	96,086	36.7	1,370,614	1,732,413	26.4
SHAREHOLDERS EQUITY		7,377	8,852	20.0	181,882	193,745	6.5
NET PROFIT		916	1,071	16.9	23,523	24,686	4.9
NUMBER OF STAFF		15,356	16,763	9.2	201,474	214,226	6.3
NUMBER OF BRANCHES	*Domestic*	825	961	16.5	10,986	11,903	8.3
	Overseas	4	4	0.0	80	83	3.8
	TOTAL	**829**	**966**	**16.4**	**11,066**	**11,986**	**8.3**

(Source: www.tkbb.org.tr) ***** prepared according to BRSA reports

The growth of participation banks in 2013 are shown in different tables below. The figures are taken from the website of Participation Banks Association of Turkey (TKBB). In general, Participation Banks increased their asset growth, raised funds, allocated funds, shareholders' equity, number of total branches and personnel in 2013 just as they did in many previous years. Also, change in the growth of the Participation Banks on these areas is much higher than the banking sector of Turkey and share of the Participation Banks within the banking sector is constantly growing. At the end of 2013, their shares in banking sector assets is 5.55% for total assets, 6.48% for the raised funds, 6.24% for allocated funds, and 4.57% for shareholders' equity.

TABLE 15:

			ASSETS GROWTH (THOUSAND TRY)	
YEARS	PART. BANKS (PB)	GROWTH (%)	BANKING SECTOR (BS)	SHARE OF PB in BS (%)
2001	2.365.000	**4,37%**	218.873.000	**1,08%**
2002	3.962.000	**67,53%**	216.637.000	**1,83%**
2003	5.112.934	**29,05%**	254.863.000	**2,01%**
2004	7.298.601	**42,75%**	313.751.000	**2,33%**
2005	9.945.431	**36,26%**	406.915.000	**2,44%**
2006	13.729.720	**38,05%**	498.587.000	**2,75%**
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	**30,50%**	833.968.000	**4,03%**
2010	43.339.000	**28,88%**	1.006.672.000	**4,31%**
2011	56.076.929	**29,39%**	1.217.711.000	**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%**

TABLE 16:

				RAISED FUNDS (THOUSAND TRY)
YEARS	PART. BANKS (PB)	GROWTH (%)	BANKING SECTOR (BS)	SHARE OF PB in BS (%)
2001	1.917.000	**2,90%**	149.438.000	**1,28%**
2002	3.206.000	**67,24%**	145.594.000	**2,20%**
2003	4.111.000	**28,23%**	164.923.000	**2,49%**
2004	5.992.000	**45,76%**	203.386.000	**2,95%**
2005	8.369.000	**39,67%**	261.948.000	**3,19%**
2006	11.237.000	**34,27%**	324.069.000	**3,47%**
2007	14.943.000	**32,98%**	371.927.000	**4,02%**
2008	19.210.000	**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	**6,48%**

TABLE 17:

ALLOCATED FUNDS (THOUSAND TRY)				
YEARS	PART. BANKS (PB)	GROWTH (%)	BANKING SECTOR (BS)	SHARE OF PB in BS (%)
2001	1.072.000	**-37,89%**	58.413.000	**1,84%**
2002	2.101.000	**95,99%**	54.860.000	**3,83%**
2003	3.001.000	**42,84%**	72.169.000	**4,16%**
2004	4.894.000	**63,08%**	107.615.000	**4,55%**
2005	7.407.000	**51,35%**	160.005.000	**4,63%**
2006	10.492.000	**41,65%**	228.141.000	**4,60%**
2007	15.332.000	**46,13%**	293.928.000	**5,22%**
2008	19.733.000	**28,70%**	384.417.000	**5,13%**
2009	24.911.209	**26,24%**	418.684.000	**5,95%**
2010	32.084.000	**28,79%**	554.128.000	**5,79%**
2011	41.103.435	**28,11%**	708.771.000	**5,80%**
2012	50.031.000	**21,72%**	829.597.000	**6,03%**
2013	67.219.000	**34,35%**	1.077.495.000	**6,24%**

TABLE 18:

SHAREHOLDERS' EQUITY (THOUSAND TRY)				
YEARS	PART. BANKS (PB)	GROWTH (%)	BANKING SECTOR (BS)	SHARE OF PB in BS (%)
2001	203.000	**26,09%**	19.003.000	**1,07%**
2002	400.000	**97,04%**	26.099.000	**1,53%**
2003	700.000	**75,00%**	36.208.000	**1,93%**
2004	892.000	**27,43%**	46.855.000	**1,90%**
2005	951.000	**6,61%**	54.687.000	**1,74%**
2006	1.560.000	**64,04%**	59.538.000	**2,62%**
2007	2.364.000	**51,54%**	75.850.000	**3,12%**
2008	3.729.000	**57,74%**	86.425.000	**4,31%**
2009	4.419.564	**18,52%**	110.874.000	**3,99%**
2010	5.457.000	**23,47%**	134.545.000	**4,06%**
2011	6.193.314	**13,49%**	144.650.000	**4,28%**
2012	7.377.000	**19,11%**	181.882.000	**4,06%**
2013	8.852.000	**19,99%**	193.745.000	**4,57%**

7. CRITICISMS TO ISLAMIC BANKING AND FINANCE

What began as an intellectual critique of western-based finance system by political movements in Islamic societies, then emerged as a area of research by muslim social scientists and now evolved into a broad field of academic research in the world. While early researchers solely dealt with ideological and philosophical background and foundation of Islamic finance, recent studies have employed greater technical and conceptual studies (Henry & Wilson, 2004, p. 63). Therefore, some criticisms were also brought into the agenda by many Islamic scholars about the application of Islamic finance instruments and Islamic banking is facing a lot of criticism, especially during the last decade.

Ahmet Terzi, an instructor in Ardahan University Business Administration department, inspects some critical questions about participation banks in Turkey such as “why do they keep profiting all the time?” and “ why do they distribute profits that are close to interest rate?”. While Bank Asya explains their constant profit with *good management,* Albaraka Turk states in its webpage that they have not distributed any lose and it is because of good sophisticated knowledge about the economy in short. The answer to the second question is the current situation of the economy. Since participation banks are competing with conventional banks that are based on interest, the profit rates of participation banks are close to interest rate. İt is determined in the market economy and it is not possible to acquire very less or much profit rate from the interest rates of conventional banks. Also, another issue is the profit seeking of participation banks according to Terzi. Participation banks are using the islamically debated finance instrument much more than the instruments that there is consensus about the suitability of Islamic law, *Shariah.* Therefore, Terzi argues that this is making participation banks look like like Islamic banks even though they are not because the share of participation to profit/loss has not exceeded 2% at all (2013).

Some also argues that Islamic banking is simply a change in the terminology of conventional banking. They accuse Islamic banks of replacing interest rate with profit rate in order to make themselves more halal (permitted things in Islam) for the Muslim population. So, they are not different or better than other kinds of banks since they are linked to exactly same global financial system. Aslam also deals with this issue and gives place in his article to the opinions of Mr. Salman Ahmed Sheikh who claims there is no real difference among Islamic and conventional banking. For him, the only difference lies in the procedures that are minor and do not change the nature of transactions. Aslam thinks that Islamic banking has a long way to go to be called Islamic in real terms, so at this point, it can only be thought as the lesser of two evils, he says. John Foster, a writer in Islamic Business & Finance Magazine, asks also the question of how Islamic banking is Islamic. He thinks that products that modern-day Islamic bankers are using are very similar to conventional banking products and he relates this problem to competition of Islamic banks with the prohibition on interest (2012). According to R. Jagannathan, this competition leads interest rate to be disguised as divident and borrowing as purchase of assets by the bank and this is a deception and fraud.

Also, there is no common view about the instruments if they are Sharia compliant or not. A financial instrument, or a product which is considered shariah-compliant by a certain bank in one country may be considered non shariah-compliant by a different bank or in a different country. So this may cause confusion and uncertainty among Muslim customers that want a hundred percent shariah-compliant financial product. In an article titled “Islamic Banking: Is It Really Kosher?” written by Aaron MacLean in 2007, uncertainity of products that are run by Islamic banks are criticized and MacLean says: “You don't have to be Islamic to bank in accordance with sharia. All you need is a board of religious scholars to approve your operation.”

8. CONCLUSION

In this study, we tried to present the outgrowing industry of Islamic finance. By starting with the history of Islamic finance, the main ideology and motivation behind this industry was introduced. Additionally, advantages, challenges, and differences of Islamic finance from the conventional finance sytem were analyzed. Also, many countries were examined and we tried to show the place of Islamic finance in those countries especially in specific case of Turkey. In order to present an objective study, we also gave voice to the critics of Islamic finance about their doubts, criticisms, and oppositions.

We hope that this study would be a reference material in future for those who study the area of Islamic finance and its application in Turkey. Needless to say, there will be some limitations to future researchers using this study since Islamic finance is constantly outgrowing and it is very hard to make estimation about the future of Islamic finance. Therefore, we also hope that this study would be further developed by analyzing the following situation of Islamic finance and how it follows its path along with the current modern financial sytem.

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