



T.C.
TOKAT GAZİOSMANPAŞA UNIVERSITY
GRADUATE EDUCATION INSTITUTE

**FINANCIAL PERFORMANCE EVALUATION OF ISLAMIC
BANKS WITH THE MULTIMOORA METHOD: AN
ANALYTICAL STUDY OF ISLAMIC BANKS IN TURKEY AND
THE GULF COOPERATION COUNCIL COUNTRIES**

Prepared by
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Department of Business And Administration
Branch of Accounting and Finance
MA Thesis

Advisor
Associate Professor
Dr. Mihriban COŞKUN ARSLAN

TOKAT - 2022



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SCIENTIFIC ETHICS PAGE

According to the thesis writing guide of Tokat Gaziosmanpaşa University Institute of Social Sciences, My Master's thesis named “Financial Performance Evaluation Of Islamic Banks With The Multimooraa Method: An Analytical Study Of Islamic Banks In Turkey And The Gulf Cooperation Council Countries ” that I have prepared under the consultancy of “Assoc.Prof.Dr. Mihriban COŞKUN ARSLAN” is based on scientific ethical values and rules. I hereby declare that it is an appropriate, original work, and I will accept any legal sanctions if it is determined otherwise.

Sherwan Younis OTHMAN

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We praise and thank God who gave us the gift of knowledge and reason and gave us the determination and will to complete this work.

Special thanks to my dear wife who had the duty of father and mother during my studies.

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We also extend our sincere thanks to: the professors and employees of the College of Business Administration and everyone who helped us, even with a kind word, in accomplishing this work.

DEDICATED TO

Praise be to God, the Great, the Generous, He opens to whomever He wills of His servants with the truth, and He is the All-Knowing Fattah.

I dedicate this humble deed to those who are my pride and my treasure, to those who have supported me throughout life, and those to whom pleasing God is linked, to the candle of my way and the balm of my life, Father. Mother.

To the people dearest to my heart, my faithful wife HAJEEN, my children JEER, MOHAMMED, and my beautiful rose EREEN. May the Lord protect you, make you happy, grant you success, and bless your life

To my sisters, brothers and all my family.

To all my friends, especially Dr. Araz Rajab. Mustafa Khairi. Kamiran Ibrahim. Zuheer Rashid And to the one who led me to the right path, Dr. Bashar Khalil, may God protect him.

ABSTRACT

Banks, which are among the most important participants of the financial sector, play a vital role in the functioning and stability of the financial system. The purpose of this research is to evaluate the 2020 financial performance of Islamic banks in Turkey and Islamic banks in the Gulf Cooperation Council (GCC) countries. In this context, the financial statements of the banks consisting of balance sheets and income statements of the working year were used. Financial ratios were evaluated by using the MULTIMOORA method, which is one of the multi-criteria decision-making strategies for determining the financial performance criterion. The data set of the study consists of nine financial ratios, each of which consists of five financial indicators (capital adequacy, financial leverage, asset quality, liquidity, profitability). Within the scope of the study, financial statements of all six Islamic banks in Turkey and seventeen Islamic banks in the GCC countries were used. According to the results of the analysis, it was determined that the Islamic bank with the best financial performance in Turkey was Vakif Participation Bank, and Qatar International Islamic Bank in GCC.

In order for Islamic banks to play a better role in the financial sector, they must have a strong financial structure. Analyzes for measuring and evaluating financial performance are important because of determining the status of Islamic banks in the sector and evaluating them in terms of profitability, liquidity, capital adequacy, asset quality, financial leverage. Different results can be obtained as the financial ratios used in the analysis, the number of banks and the working years change.

Keywords: Islamic Banks, Financial Performance, Multi-Criteria Decision Making Methods, MULTIMOORA, Gulf Cooperation Council

ÖZET

Finans sektörünün en önemli katılımcıları arasında yer alan bankalar, finansal sistemin işleyişinde ve istikrarında hayati bir rol oynamaktadır. Bu araştırmanın amacı, Türkiye'deki İslami bankaların ve Körfez Arap Ülkeleri İşbirliği Konseyi (KİK) ülkelerindeki İslami bankaların 2020 yılı finansal performanslarını değerlendirmektir. Bu kapsamda çalışma yılına ait, bankaların bilanço ve gelir tablosundan oluşan finansal tabloları kullanılmıştır. Finansal performans ölçütünün belirlenmesine yönelik çok kriterli karar verme stratejilerinden biri olan MULTIMOORA yöntemi kullanılarak finansal oranlar değerlendirilmiştir. Çalışmanın veri seti, her biri beş finansal göstergeden (sermaye yeterliliği, finansal kaldıraç, aktif kalitesi, likidite, karlılık) oluşan dokuz finansal oranda oluşmaktadır. Çalışmada, Türkiye'deki altı İslami bankanın tamamına ve KİK ülkelerindeki on yedi İslami bankaya ait finansal tablolar kullanılmıştır. Analiz sonuçlarına göre sonra Türkiye’de en iyi finansal performansa sahip İslami bankanın Vakıf Katılım Bankası, KİK’de ise Katar Uluslararası İslam Bankası olduğu tespit edilmiştir.

İslami bankaların finans sektörü içerisinde rolünün daha iyi seviyelere çıkabilmesi için güçlü bir finansal yapısı olması gereklidir. Finansal performansın ölçülmesi ve değerlendirilmesi için yapılan analizler İslami bankaların sektör içinde durumlarının belirlenmesi ve karlılık, likidite, sermaye yeterliliği, aktif kalitesi, finansal kaldıraç açısından değerlendirilmesi sebebiyle önem arz etmektedir. Analizlerde kullanılan finansal oranlar, banka sayıları ve çalışma yılları değiştikçe farklı sonuçlara ulaşılabilir.

Anahtar Kelimeler: İslami Bankalar, Finansal Performans, Çok Kriterli Karar Verme, MULTIMOORA, Körfez Arap Ülkeleri İşbirliği Konseyi

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ABBREVIATIONS

AAOIFI : Accounting and Auditing Organization for Islamic Financial Institutions .

ADCB : Abu Dhabi Commercial Bank .

AIBIM : Association of Islamic Banking Institutions Malaysia .

ATM: Automated teller machines .

BBK : Bank of Bahrain and Kuwait .

BDDK :Bankacılık Düzenleme ve Denetleme KurumuTR, Banking Regulation and Supervision Agency,EN .

BIMB : Bank Islam Malaysia Berhad .

BMI : BankMuscat International Bahrain .

BRSA: Banking Regulation and Supervision Agency .

CIBAFI : Council of Islamic Banks and Financial Institutions .

CIBAFI: General Council of Islamic Banks and Financial .

DIEDC: Dubai Islamic Economy Development Center .

GCC : Gulf Cooperation Council countries.

ICD : Islamic Corporation for the Development .

ICIEC: Islamic Corporation for the Insurance of Investment and Export Credit .

IDB : Islamic Development Bank .

IDB: Islamic Development Bank .

IFSB : Islamic Financial Services Board

IICRA: The International Islamic Centre for Reconciliation and Arbitration .

IIFM : International Islamic Financial Market .

IIFM: International Islamic Financial Market .

IIRA: Islamic International Rating Agency .

IMF : International Monetary Fund .

INCEIF: International Centre for Education in Islamic Finance .

IRTI : Islamic Research and Training Institute .

ITFC: International Islamic Trade Finance Corporation.

KİK: Körfez Arap Ülkeleri İşbirliği Konseyi

KFH : Kuwait Finance House .

LMC: Liquidity Management Center .

LMC: Liquidity Management Center

NCB: National Commercial Bank .

PSIAs: profit-sharing investment accounts.

SABB: Saudi British Bank .

SFHs &SFH: Special Finance Houses .

TKBB:Türkiye Katılım Bankaları BirliğiTR&Turkish Participation Banks Association,EN

UAE :United Arab Emirates .

INTRODUCTION

Banks are the backbone and engine of the economy because they maintain and develop funds, allow them to circulate, and plan to invest them. Therefore, the positive role that the banking system plays in providing services, in various financial fields such as finance and investment, and in various financial, social activities and economic, cannot be ignored. Banks regulate and facilitate transactions between institutions and individuals in society, and solve many subsistence issues, whether by financing their needs or paying their bills.

Banks were established in the early fifties, and, although the majority of their purposes are lawful, they use a variety of methods, some of which contravene Islamic law's rules, goals, and objectives, such as dealing with interest. As a result, intellectuals, jurists, and specialists of the time recognized the need to profit from banking operations in acceptable ways that are compatible with religion in general and Islam in particular, and so they justified the concept of Islamic banks. Islamic banks are banking institutions that adhere to Islamic Sharia in all of their activities, and they are distinguished by being multifunctional banks that play the roles of commercial banks and specialized banks, and they do not deal with crediting money except within the limits of the legitimate sale practiced by those who are not only lenders or borrowers. Rather, they offer finance in legal forms such as Mudaraba, Murabaha, and Musharaka on the premise of bearing and sharing profit and loss, and they are related to their customers via partnership, Murabaha, and trade. As multipurpose institutions, Islamic banks strive to positively and effectively contribute to the economic and social growth of their communities.

Describing banks as Islamic is incorrect as soon as they appear in the name of the bank or the logo that raises them as an institutional desire. Rather, it must be disclosed in word and commitment in action to adhere to Islamic Sharia's requirements and principles, there for there must be tools to ensure the achievement of this commitment, and the presence of a Sharia-compliant oversight body is considered. The presence of the Shariah The Supervisory Board considered One of the main differences between Islamic banks and conventional banks, as it consists of a group of Islamic Sharia scholars and legal scholars

who believe in the institution's concept.

The activities of Islamic banks have expanded during the last period in terms of increasing their number, geographical spread and number of dealers and the volume of its transactions as in (State of the Global Islamic Economy Report 2019:5). The value of the Islamic finance industry was estimated at \$2.5 trillion in 2018 and is expected to reach \$3.5 trillion by 2024. As it became very to ignore the Islamic bank's role in the Islamic world and abroad, a number of international banking institutions have experimented with Islamic banks. by establishing special branches and sections for these types of banks.

Since the evaluation of financial performance is one of the basic and necessary guarantees for the growth economic and continuity of banks in general and Islamic banks in particular, in this study has the application of financial performance made to the financial statements of Islamic banks in Turkey and the Gulf Cooperation Council countries. MULTIMOORA method is used to study the Financial Criterion, considering that data finance serves as an input to financial analysis. At the same time, it is the output of the accounting system, so it was necessary to study, analyze and interpret these lists. And this is done to be more informative in the decision-making process, and also to help in evaluating Islamic financial performance. In the end, a set The financial performance of Islamic banks was evaluated ,of conclusion were presented in the light of the study and the results that were reached, which in turn contribute to raising the efficiency of the financial performance of Islamic banks.

The study is divided into four chapters. The first chapter deals with Islamic banks, the definition and start date of Islamic banks, as well as the financing tools for Islamic banks . The second chapter deals with the financial performance measurement and deals with the indicators of the financial performance of banks, with regard to the third chapter, which is related to applied studies, the chapter dealt with how to apply the Measuring the financial performance of Islamic banks by the MULTIMOORA method to financial instruments, and then those results were analyzed. The last chapter dealt with the results and conclusions of the research

CHAPTER 1: ISLAMIC BANKS: YESTERDAY, TODAY AND TOMORROW

The birth of the idea of Islamic banks was not a coincidence, but as a result of the efforts and numerous studies of a group that lived through the economy and fought it with all its crises, and realized that there was no way out. Except by bringing about a radical change that aims at radical reforms that penetrate deeply into problems and address economic ills from their roots. In order to avoid dealing with usury and not push society to more misery, deepening class differences, isolating financial transactions from rational Islamic morals, and consecrating the principle of selfishness among the rich and feelings of deprivation among the poor, As a result, Islamic banks establishment very quickly. Accordingly, the idea of Islamic banks imposed itself as a legitimate alternative to the existing interest-based banks, embodying thus a model for the benefit of Islamic societies and the world at large. In order to identify the banks

The following are explained in this chapter:

- Concept Of Islamic Bank
- The Position Of The Gcc Countries In Islamic Finance
- Islamic Banks In Turkey
- Institutions Supporting The Islamic Financial Industry
- Fund Allocation Methods

1.1. CONCEPT OF ISLAMIC BANK

Islamic banks are considered among the basic legal structures in many countries' economies, through their financing and investment mechanisms, which in turn differ from the financing mechanisms in traditional banks. Islamic banks offer the communities in which they operate a variety of legitimately acceptable services that grow as a result of their investment and share in risk, profit and loss, which do not deal with interest. Islamic banks represent the most important and greatest achievements of the Islamic economy.(Hassan and Lewis, 2007:18)

There are so many definitions of Islamic banks that it is difficult to put a specific definition of a bank as a credit institution regardless of its type. Everything revolves around

the business that banks do, and in this context we will mention some definitions as follows. The agreement establishing the World Federation of Islamic Banks, in the first paragraph of Article V, defines Islamic banks as: “Islamic banks in this system mean banks or institutions whose founding law and articles of association expressly provide for adherence to the principles of Islamic law, and not to deal in interest.” (International Federation of Islamic Banks, 1977:2).

Islamic banks are banking financial entities that gather and invest monies as well as provide banking services in line with Islamic Sharia. Islamic banks conduct their investment operations committed to the prevention of interest in all its forms. They likewise operate on the basis of private and public dual ownership, and their operation is either direct (trading) or indirect (investing). Islamic finance strategies such as Mudaraba, Musharaka, Murabaha, Salam, Istisna'a, Agriculture, Retention, and Ijarah contracts are used to accomplish this. There is no difference in the way Islamic banks conduct all other financial services offered by commercial banks, including documented credits and guarantees. (Ajagbe & Brimah, 2013:74)

And at the conference held in Istanbul in 2017, under the title (Product Development and Creativity). Islamic Banking: The hierarchy of the theoretical premises of the concept of Islamic banking has been defined, which starts from the base of the pyramid to its top, and is embodied in the figure. (Al-Bwab et al., 2018:5)

1. Protecting shareholders' funds, owners' rights, and financing projects that comply with the provisions of Islamic Sharia.
2. Contributing to economic development and achieving social justice.
3. Not dealing with interest in different loan contracts, as well as with different types of deposits.
4. Not to deal with contracts that are characterized by a high degree of uncertainty and to disclose them fully before, during and after their implementation.
5. risk sharing

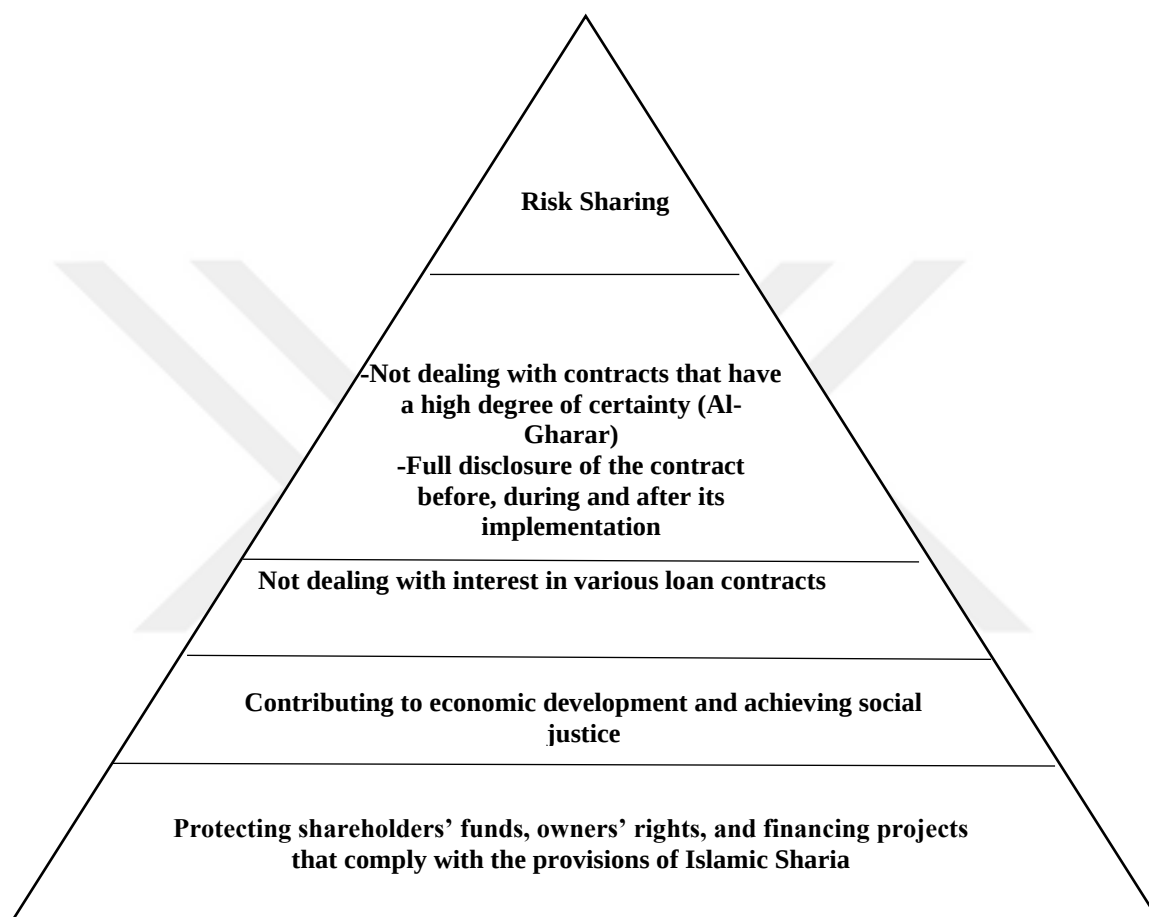


Figure 1.1. Theoretical bases for the activities of Islamic banks
Reference : (Zamir Iabal, 2017:14)

1.1.1. Reasons for the Emergence of Islamic Banking Services

Since the early eighteenth century, the banking industry has used interest-based mechanisms to lend money to those in need. Individuals had no other option than to borrow money at generally exorbitant rates of interest, which resulted in the establishment of an unjust system that gave people more troubles than they needed. In the mid-1970s, the desire for a fair financial system gave rise to Islamic banking. Its mission was to provide a fair and honest financial alternative. and most importantly, To become a source of economic advancement for the needy. Islamic banking transactions were conducted in accordance with

the norms of the tolerant Islamic Sharia. As a high alternative system that did not take or give any benefit, Thus, while addressing people's financial requirements and preserving the greatest ethical standards, openness, and a feeling of responsibility, a justice system of social justice and equality is provided.

It is incorrect if he believes that Islamic banking transactions and the traditional banking system are Two sides of one coin , or if he believes that there is no banking system without interest. Regardless of their views, millions of people throughout the globe trust and believe in him. It is the financial system toward which the world's main traditional banks are starting to shift. In all of its activities and operations, it is a financial system regulated by a flexible moral framework. It is a financial system in which "zero interest" is the norm¹.

The formation of the Islamic society in its true sense with the aim of peaceful coexistence. Individuals in the Islamic community must act in accordance with the rules of moral conduct. As a result, the Muslim community is founded on mutual assistance and morality. As the source of every forbidden behavior is a Quranic verse: (Assist one another in righteousness and piety, but not in vice and hostility.) All of these are specifically banned by Islamic law. Transactions that include some or all of the following elements: any return on money that is predetermined by an amount (or a percentage) of what is known as modern interest (usury), and contract uncertainty (gharar), which means the prohibition of selling things that do not exist and are ambiguous in the contractual terms. Gambling (maker) - refers to speculative transactions in futures and options. Acts related to trade in prohibited products such as. Activities including selling pork, selling alcohol and providing game services.

The banking system is the lifeblood of every contemporary economy, serving as a conduit for financial intermediation through disbursing credit and mobilizing deposits. The primary goal of a bank is to present a common fund or a pool of idle money to the general public; however, since interest is the cogwheel of contemporary (traditional) banking, it is absolutely banned in Islam, and hence no banking system based on interest can exist in Islam. In terms of its aims, beliefs, practices, and operations, an Islamic bank is a financial organization that adheres to the spirit of Sharia as established in the Holy Qur'an and the

¹ <https://www.dib.ae/en/about-us/about-islamic-banking>

Sunnah of the Prophet. Islamic banking is no longer a novel concept; it is already a practical reality. To compete with the current interest-based banking system, modern Islamic banks have successfully positioned themselves in an integrated interest-free system with a variety of competitive offerings. Because of its value-oriented approach, Islamic banking is able to draw money from both Muslims and non-Muslims. (Khaki & Sangmi, 2012:8)

The relationship between debt, economic structure and the legal environment is a direct one, and this is especially true in a number of developing and emerging economies. As a result, the emergence of financial systems based on the principles of religion was natural. An important example of this is Islamic banking and finance, which were formally institutionalized in the early 1970s by Muslims in the Middle East who incorporated 1,400-year-old Islamic principles into actual financial systems. Initially, The goal was to create religiously acceptable financial services. Islamic banking and finance is currently an important part of the financial systems of more than 53 countries. As it happened in non-Muslim majority countries such as Sri Lanka, Thailand, Luxembourg, Ireland and the United Kingdom. In 2018, the assets of the entire Islamic system amounted to more than \$2 trillion; Twenty years ago, the question was whether Islamic banking and finance was a passing trend or would it continue. There are now additional questions about how and why it works. (Suhendra et al., 2020:15)

Apart from spiritual rituals and daily activities, Islamic principles - known collectively as Islamic law - provide standards that govern financial, commercial and economic behaviour. The principle of religion in Islamic law is forbidden and forbidden, and whoever commits this is punished, while asset-backed financial intermediation is encouraged. It is forbidden to collect interest because is economically harmful to the weaker party (the borrower). Moreover, speculative activity, of great degrees of uncertainty, and transactions which have little or no relation to the actual economy are prohibited. Also, alcohol, pornography and gambling are considered dangerous to people and society, so Sharia forbids their distribution. Defenders of the system claim that taboos can be unused or prevented to solve the difficulties arising from financial deregulation. In other words, bringing values back into the financial system and the economy encourages social responsibility and public mortality, which improves the living environment and supports

economic progress. She also values hard work and responsible adventure above the commodification of all financial and business activities

Islamic principles can be viewed as a plan of organization based on religion. According to the literature, economics gives an ethical component (Zinbarg, 2005) because an “internal ethical application mechanism” may be envisaged (Hilary and Hui, 2009; Torgler, 2006).

Given the above, some scholars (Ahmed et al., 2013; Asutay, 2012; Clement and Wilson, 2004; El Gamal, 2000; Ward, 2000) regard the Islamic financial system as a diversification opportunity with the potential to complement financing techniques. Others contend (Khan, 2010; Curran, 2004; Nomani, 2006) that practitioners have given the dominant financial system a religious character in order to extract money from believers. Previous Islamic banking and finance work has concentrated on examining Islamic scriptures and establishing if these laws may be implemented in reality (Chapra et al., 2008; Dusuki and Abozaid, 2007). After more than 25 years of formal operation, an empirical review of the system is gaining traction as a means of validating prior narrative assumptions. (Suhendra et al., 2020: 16)

The idea of establishing Islamic banks emerged as a result of the intersection of the behavior of commercial banks with interest with Islamic Sharia, specifically in the interpretation and legislation of the rule of interest - give and take, which is the main entry point for commercial banks. From Surah Al-Baqarah.

The prohibition of interest (usury), which is a basic tenet of Islamic banking, is derived from the four Qur’anic verse Surat Al-Baqarah 275-282

275 - (Those who eat usury) i.e. they take it, and it is the increase in dealing with money and foodstuffs in the amount or time (they do not rise) from their graves (except) standing up (as the one who stumbles) is smitten by (the devil from the touch) madness, related to them (that) who descended They (that they) because they (they said that selling is like usury) in the permissibility and this is from the opposite of the analogy is an exaggeration, so the Almighty said in response to them (And God has permitted selling and forbidden usury, so whoever comes to him) gave him a (sermon) and exhorted (from his Lord, so he stopped) about eating it (for him what has preceded) Before the prohibition, that

is, he does not recover from him (and ordered him) to pardon him (to God and whoever returned) to his eating, likening him to selling in the solution (those are the owners of the Fire, they will abide therein)

276 - (God destroys usury) decreases it and takes away His blessings

277 - (Indeed, those who believe and do righteous deeds and establish prayer and pay zakat will have their reward with their Lord, and they shall have no fear, nor shall they grieve.)

278 - (O you who believe, fear God and forsake) Leave (what remains of usury if you are believers) truthful in your faith, for it is the duty of the believer to comply with the command of God Almighty, revealed when some of the Companions demanded after the prohibition of usury that they had before

279 - (And if you do not do) what you have been commanded (then give permission) know (a war from God and His Messenger) to you in which there is a severe threat to them, and when it was revealed they said, “We have no hand in his war. And do not be wronged) with a deficiency

280 - (And if) a debtor (with hardship and outlook) falls to him, i.e. you have to delay it (to easy) by opening the seine and joining it any time that is easy (and to give alms) by emphasizing the incorporation of the t in the original in the saddle and by reducing its omission, i.e. giving alms to the insolvent by clearing (good for you) If you know) that it is good, then do it. In the hadith, “Whoever looks down on someone who is insolvent or relieves him of it, God will shade him in his shade on the day when there will be no shade but His.” Narrated by Muslim

281 - (And beware of a day when you will be brought back) by building, to the effect you will return, and to the actor you will walk (on it to God) it is the Day of Resurrection (then he died) in it (every soul) a reward for (what it earned) it did good and evil (and they will not be wronged) with the lack of a good deed or a bad addition.

1.1.2. History and Development of Islamic Finance

Between a year 650 - 750

After the revelation of Islam to the Prophet Muhammad (peace be upon him) and its spread in the cities of Mecca and Medina. Because of the sanctity of the land, these cities developed via local trade and international trade as they served as a gathering place for people. While interest-based loans were the primary source of funding at the time. Businessmen in Mecca and farmers in Medina met their financial demands by engaging with and taking out interest-bearing loans.

After the great financial development that these cities have reached. After the advent of Islam, the Qur'anic verses that were revealed not to deal with interest, and to consume some commodities such as alcohol, and methods of trade such as gambling laid the foundation for the work of Islamic finance. These concepts were effectively implemented. For numerous centuries, it was adopted in the two cities and expanded to other regions of the globe. As a result, the formation of the Bait Al-Mal, the primary Islamic treasury devoted to the benefit of poor Muslims in the system of the Prophet Muhammad (peace be upon him), demonstrates that the construction of the Islamic financial system started at that time. During the reign of the second Caliph Omar, may God be pleased with him, the Prophet Muhammad, may God's prayers and peace be upon him), founded the Bait Al-Mal and controlled it as a distinct organization. The major sources of income for the treasury were the land tax, tax, zakat, tribute tax, customs fees, gifts, property without ownership, and property of dead individuals without legal heirs. Regardless of when the Bait al-Mal was founded, historical evidence supports the presence of checks and bills of trade in Islam's early days. For example, Ibn Abbas (may God bless him) had received the Wariq (dirham-minted silver) and was sending an acknowledgement to Kufa (a city in Iraq). Similarly, Abdullah ibn al-Zubayr (may God bless him) collected money in Mecca and wrote to his brother in Iraq, promising to reimburse the depositors upon their arrival. In the history of Islamic banks, Saif al-Dawla al-Hamdani is credited with being the first to employ checks. This is a short history of Islamic finance between the years 650 and 750 AD. (Academy, 2014:29)

Between a year 750 - 1900 .

Unfortunately, no serious research on the development of Islamic economics and finance from 750 AD to 1900 AD has been performed. There is a scarcity of detailed information about the Ottoman Empire's banking system in Turkey, Moghals in India, and Damascus. Regional, national, and international trade developed dramatically in Rome, Tunisia, Turkey, India, and Sumatra. It was often done on a Musharaka (profit-and-loss-sharing) basis. Financial instruments including Sak or Sukuk, Saftija, Bai al-wafa, and Bai al-nuqud were also used and practiced. (Academy, 2014:30)

Between a year 1900 - 2000

Following a brief discussion of the evolution of Islamic money from 650 AD to 1900 AD, We shall now shift our focus to the present state of Islamic finance. This refers to the nineteenth-century technological advances. Following the industrial revolution in the early nineteenth century, the interest-based banking system expanded significantly. The rise of interest-based banking was taken seriously by Muslim philosophers of the time, who sought an alternative financial structure for Muslim society within Shari'ah principles. When Shari'ah experts in Egypt declared the payment of interest on post office savings money unconstitutional in 1903, the Egyptians legally disputed the 'interest.' It was followed by a protest against Barclays Bank's interest-based funding for the Suez Canal's development. In addition, in the 1890s, an organization for interest-free loans was formed in India. In 1923, another similar institution, "Anjuman Imdad-e-Bahmi Qardh Bila Sud" (Interest Free Credit Society), was established in Hyderabad. (Academy, 2014:30) In terms of intellectual progress, the 1950s and early 1960s saw significant advancements in concept and application. This period was marked by the emergence of a large number of studies and models proposed by Pakistani, Egyptian, and Iraqi Islamic economists; where systematic thinking began to emerge in Pakistan in 1950 in order to develop financing techniques that take into account Islamic teachings, and also a week of Islamic jurisprudence was held for the first time in Paris in 1951 A.D. on usury, in addition to many studies on Islamic economics such as Malik's study The studies of Bennabi, Sayyid Qutb, Mahmoud Abu Al-Saud, and Muhammad Aziz on (the broad framework for interest-free banks) and Muhammad Hamid Allah's 1958 paper on (a proposal to establish an Islamic Monetary Fund) . (Boujlal; Anfal

2018:4) Mit Ghimar in Egypt was the first actual manifestation of a bank-like Islamic financial organization on a modest scale, beginning in 1963 and closing down in 1967. Another separate Islamic finance experiment, Shariah, began in Malaysia. (Syed & Ahmad, 2007:11) The Pilgrims' Savings Corporation was established as a consequence of Malaysian attempts to provide a savings plan for Muslims wishing to do the Pilgrimage. In 1969, it was incorporated into the Pilgrims' Management and Fund Board, generally known as Tabung Haji. (Academy, 2014, p. 31) In the early 1970s, most developments were theoretical, with little actual experience. However, accumulated theoretical knowledge prepared the ground and generated sufficient collective will for the establishment of Islamic banks in the 1970s, including Nasser Social Bank in 1971, Dubai Islamic Bank in 1975, and another as a multilateral organization (Islamic Development Bank) in 1974, and Jordan Islamic Finance Bank in 1978. In the years thereafter, a number of new Islamic banks and financial institutions have emerged. Due to economic realities and regulatory limits, Islamic banks have depended heavily on murabahah and leasing contracts to fund operations rather than the initially conceived mudarabah contract in the second tier. Murabahah is so widespread that the term "murabahah syndrome" has been invented by certain authors. (Yousef, 2005:69) During the 1980s, the Islamic financial services business saw remarkable growth and expansion. Extensive study, constitutional protection in three Muslim nations, notably Iran, Pakistan, and Sudan, as well as the engagement of conventional banks in delivering Shari'ah-compliant services, were among the significant developments of the 1980s. The International Monetary Fund (IMF) has launched a study on the macroeconomic consequences of a zero-interest economic system. Malaysia and Bahrain pioneered Islamic banking within the confines of the current system. Bank Islam Malaysia Berhad (BIMB) was formed in Malaysia on July 1, 1983. Another notable event that happened during this time period was the awarding of an Islamic bank license in Saudi Arabia to the fifty-year-old Al-Rajhi Company, which began operations as Al-Rajhi Banking Investment Corporation in 1985. (Academy, 2014, p. 31) Steps have been conducted in Pakistan to connect the financial system with Shari'ah principles. The legislative framework was updated in 1980 to allow the operation of Shari'ah-compliant profit-sharing financing enterprises, as well as the start of bank financing using Islamic instruments. Similarly, in August 1983, Iran implemented new banking laws

that replaced traditional banking with interest-free banking. The law provided banks with a three-year window to align their activities with Islamic beliefs. Sudan initiated attempts to reconcile the whole financial sector with Shari'ah criteria in 1984. (Hussain et al., 2015:4) During the 1990s, Islamic banking began to expand its roots as legislation was changed to allow numerous conventional banks to establish Islamic banking window operations in the country. During the same time period, the Association of Islamic Banking Institutions Malaysia (AIBIM) and the National Shariah Advisory Council were established, followed by the development of the Islamic Interbank Money Market, which fueled the country's Islamic banking business's growth. Islamic International Arab Bank was established as a public joint stock company under the Companies Law of 1989 and was registered in the Public Shareholding Companies Register as No. (327) on March 30, 1997².

1.2. ISLAMIC BANKS IN THE GULF COOPERATION COUNCIL COUNTRIES

Since the early 1970s, the financial industry has experienced major structural and ideological changes, which may be linked to the emergence of modern financial globalization as an economic reality and a political aim. Finance has contributed in the acceleration of the globalization trend, since it was bureaucrats who chose to participate in financial markets in the first place. As a result, it is possible to claim that some governments or unions have gained significance in the global financial system. (Monk, 2012:8). This is demonstrated by the fact that the six Gulf Cooperation Council (GCC) member countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), have all experienced increased prosperity as a result of the phenomenal accumulation of money generated by oil profits. The Gulf Cooperation Council (GCC) nations have rentier economies, with economic resources and revenue drawn mostly from oil production, and have risen in recent decades as significant threats to the global financial system. These countries' governments have started to use their oil wealth to rearrange their standing in the global financial system. Furthermore, as a result of the development of important financial funds, the GCC states have shifted their position to take center stage in strategic financial investments. Because of the GCC nations'

² <https://iiabank.com.jo/en/page/overview>

substantial position in the financial system, the emergence of Islamic finance might be attributed to their contributions to the global Islamic banking and finance industry. The establishment of the first Islamic bank, as well as the hosting of an international conference on Islamic finance in the Gulf region during the 1970s, demonstrate that the GCC countries were at the forefront of Islamic banking development. Currently, the GCC nations have approximately 145 major Islamic financial institutions, accounting for about 40% of all Islamic financial institutions. (The Banker's Top Islamic Financial Institutions 2016). Furthermore, the GCC nations control almost 40% of all Islamic financial assets worldwide. However, the GCC nations' success in financial assets and institutions has not been repeated in the field of Islamic economics and finance education. It is worth noting that, especially in the wake of the Arab Spring, GCC nations have attempted to participate in Islamic finance via state investment, such as their own sovereign wealth fund, in order to strengthen their local economies. (Akkaş,2017:3)

1.2.1. The Growth of Islamic Finance in GCC Countries

The rapid expansion of the Islamic financial industry has played a key influence in the global financial sector during the past four decades. However, the rise of Islamic banking began with the petrodollar, which caused structural and ideological shifts in the financial system since the 1970s. Because of their vast oil reserves, the Gulf Cooperation Council countries played a critical role in the adoption and expansion of Islamic finance in the global financial system. There are several research available in this regard, including government reports and scholarly publications on the expansion of Islamic finance in all Gulf Cooperation Council countries or member states. The vast majority of them concentrated on empirical research, using econometric tools to examine the impact of GCC countries on the rise of Islamic finance. (Akkaş,2017:3)

(Wilson,2009:8) assesses the process of Islamic economic growth in the existing literature on the development of Islamic finance in the GCC states His study began in 1975, when Dubai Islamic Bank was founded to offer Islamic insurance and asset management under Islamic law via retail and investment banking. Prior to the establishment of the Dubai Islamic Bank, the Saudi Arabian Monetary Agency's (SAMA) Royal Decree of 1952 was

identical to the regulations of other central banks, and Islamic considerations came into effect in 1966, with banking oversight. Law. This was not permitted in Saudi Arabia. It is a valid legislation, however it forbids banks from barring Murabaha transactions. Furthermore, the current Islamic banking system was further developed via Sharia as a consequence of the region's oil boom, which resulted in the establishment of the Islamic Development Bank in Jeddah in 1975. Following the formation of that bank, additional Gulf Cooperation Council (GCC) nations began to investigate modern Shariah-compliant financial systems (Wilson, 2009:8). In this view, (Musharraf,2015:9) connected the increase in oil prices to the advent of Islamic finance in the Gulf area, as well as its use as a political instrument in 1973.

The banking sector, which includes the formation of Dubai Islamic Bank in 1975, the Islamic Development Bank in 1975, Kuwait Finance House in 1977, and Bahrain Bank in 1978. The Islamic Company was founded in 1978, and the Islamic Gulf Investment Company was founded in 1977 and 1978, respectively, in Sharjah and Bahrain. The Islamic Bank was founded in 1978. So, according to Sharia, the bank's assets now account for a significant portion of the bank's total assets, accounting for around 35% of total assets in the region. According to this data, the GCC countries have more Islamic bank assets than other key countries in the regional financial markets (Mosharraf,2017:9). Following a brief history of Islamic finance at CCG, it is worthwhile to investigate empirical studies on Islamic financing in the region. (Akkaş,2017:6)

Several studies have revealed that, with the exception of Oman, all Gulf Cooperation Council nations are seeing an increase in Islamic banking. The findings of these research Several studies have revealed that, with the exception of Oman, all Gulf Cooperation Council nations are seeing an increase in Islamic banking. According to the findings of these studies, Islamic finance in the Gulf Cooperation Council (GCC) nations is mostly focused on comparative studies of Islamic finance and conventional finance. (Al-Ajmi et al., 2009; Bly and Quinn, 2004; Grassa and Gazdar, 2014; Johnes et al., 2009; Al-Khudiri et al., 2015), the impact of Islamic finance on economic growth (Al-Qahtaniyat, 2016; (Bellans et al. 2015; Al-Moussawi and Obaid, 2011). He claims that Islamic money drives development in the GCC, but conventional finance has had no direct influence on the region's economic progress. Aside from comparative studies on economic development, there are also research that

compare the performance of Islamic financing with conventional finance. Khediri et al. (2014) discovered that Islamic finance is more lucrative, more liquid, better capitalized, and less risk orientated than traditional banks in this aspect. These findings were acquired by parametric and non-parametric categorization in Gulf Cooperation Council nations between 2003 and 2010. There are many studies that compare customers' usage of Islamic financing, conventional finance, or both. Al-Ajmi et al. (2009) employed a questionnaire in this respect to prioritize bank clients in Bahrain while making banking choices. According to the questionnaire, which was issued to 1,000 individuals, the Islamic religion, social responsibility, and financial rewards are among the most significant elements that clients consider when selecting a bank. People who employed Islamic financing, conventional finance, or a mix of the two were among those who took part in this poll. Despite the fact that clients who use Islamic and traditional banking services share a number of motivations, The products/services offered by banks clearly demonstrate the distinctions between Islamic and regular banks. Murabaha, for example, is the most extensively utilized service provided by Islamic banks. This service is not offered by traditional banks. demonstrate that Islamic money promotes development in the GCC nations, whilst conventional finance has had little direct influence on the region's economic progress. Aside from comparative studies on economic development, there are also research that compare the performance of Islamic financing with conventional finance. Khediri et al. (2014) discovered that Islamic finance is more lucrative, more liquid, better capitalized, and less risk orientated than traditional banks in this aspect. These findings were acquired by parametric and non-parametric categorization in Gulf Cooperation Council nations between 2003 and 2010. There are many studies that compare customers' usage of Islamic financing, conventional finance, or both. Al-Ajmi et al. (2009) employed a questionnaire in this respect to prioritize bank clients in Bahrain while making banking choices. According to the questionnaire, which was issued to 1,000 individuals, the Islamic religion, social responsibility, and financial rewards are among the most significant elements that clients consider when selecting a bank. People who employed Islamic financing, conventional finance, or a mix of the two were among those who took part in this poll. Despite the fact that clients utilizing Islamic and conventional banking services have a lot of shared motivations, the products/services employed in banks clearly highlight

the contrasts between Islamic and conventional banks. Murabaha, for example, is the most extensively utilized service provided by Islamic banks. This service is not offered by traditional banks. (Akkaş,2017:7)

1.2.2. The present state of Islamic banking in the GCC

The Islamic banking industries in the GCC countries, as well as the bulk of Islamic financial institutions, have reaped significant profits. As a consequence, the Gulf Cooperation Council (GCC) countries have made important contributions to the stability of the Islamic financial system. (Akkaş,2017:7). The countries of the Gulf Cooperation Council are considered the forefathers of the Islamic financial industry, as they were the birthplace of many institutional applications of Islamic finance, as the first two Islamic banks were established in the Kingdom of Saudi Arabia (Islamic Development Bank) and the United Arab Emirates (Dubai Bank, and it is also considered the incubator of Takaful insurance). Cooperative, as the insurance system in the Kingdom of Saudi Arabia is totally based on cooperative insurance, and cooperative/takaful insurance institutions operate in the rest of the GCC nations, and these countries have the highest proportion of capital markets and sukuk among all other areas. These nations compete and collaborate to become the Islamic finance industry's metropolis. The Islamic Development Bank, the world's biggest Islamic financial institution, is based in the Kingdom of Saudi Arabia, and Bahrain, in turn, is regarded one of the industry's metropolises, housing numerous infrastructural organizations such as the General Council of Banks. Islamic banks account for a significant portion of the market. The largest of the size of the Islamic financial industry, accounting for more than three-quarters of the industry (and in each of the Kingdoms of Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Bahrain, Islamic banks are considered to be of systemic importance, contributing significantly to financing the economy, and sukuk issuances, while not consistent, contribute significantly to financing the economy). As a result, it contributes to the provision of funding to the business and government sectors (sovereign sukuk) Guendouz, 2021:7)

1.2.2.1. Bahrain

Because it is home to many of the world's largest Islamic financial organizations and associations, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA), and the State Audit Bureau, Bahrain has played an important role in the development of Islamic finance (LMC). As a consequence, Bahrain might be considered the epicenter of Islamic infrastructural institutions.

The Accounting and Auditing Organization for Islamic Financial Institutions, established in 1991 by the State of Bahrain as an autonomous non-profit international organization, was crucial to Islamic banking. The International Islamic Financial Market (IIFM) was founded by Emiri Decree in 2002 to promote Sharia-compliant finance, give direction for the use of Islamic financial instruments in corporate finance and trade finance transactions, and stimulate secondary trading. The market must be open for business (International Islamic Financial Market, abbreviation II). IIRA was established in Bahrain in 2002. It collaborates with multilateral development banks, banks, and financial institutions to provide global assessments of Islamic financial institutions and capital market products. CIBAFI was established in Bahrain by Royal Decree No. 23 on May 16, 2001, as the global umbrella for Islamic financial institutions, with the objective of promoting Islamic financial markets and encouraging cooperation among Islamic financial institutions. LMC was created in 2002 in Bahrain and is a Central Bank of Bahrain-approved Islamic investment bank. Bahrain Islamic Bank (25 percent), Dubai Islamic Bank (25 percent), Islamic Development Bank (25 percent), and Baytak are among LMC's shareholders (25 percent). The objective of LMC is to assist the expansion of the Islamic interbank market by offering short-term liquidity options that are Sharia-compliant.

It is worth mentioning that Bahrain has the largest portfolio of Islamic financial institutions. Bahrain has 11 Islamic commercial banks, according to The Banker. Seven of these banks are completely Islamic, with the other four serving as Islamic windows. As a consequence, Bahrain is the GCC's second largest commercial bank, behind only Saudi Arabia. However, three of these banks are included in the statistics of other nations, as indicated in Table 1, since they are owned by these organizations yet have branches in

Bahrain. Al Baraka Islamic Bank in Pakistan and Bank Muscat International in Oman are among them. (Akkaş,2017:8)

Table 1.1.Islamic Banks in Bahrain

Institutions	Sharia Compliant Assets as a Percentage of Total Assets
1. Ahli United Bank	Windows % 42.58
2. Ithmaar Bank	100%
3. Al Salaam Bank	100%
4. Bahrein Islamic Bank	100%
5. Al Baraka Islamic Bank	100%
6. Khaleej Commercial Bank	100%
7. ABC Islamic Bank	100%
8. BMI (BankMuscat International Bahrain)	Windows % 93.02 (FOS)
9. Eskan Bank	Windows %39.32
10. Bank of)Bahrain and Kuwait((BBK)	Windows %3.37
11. Family Bank	100%

Reference: The Banker (November, 2016).

1.2.2.2. Kuwait

Legislation No. 32, enacted in 1968, established provisions for banks to function in conformity with Islamic Sharia, however there were several discrepancies between the requirements of this law and Islamic Sharia. As a result, and in accordance with Islamic Sharia standards, "Law No. 30 of 2003 was published to include a separate section for the islamic Banks of Al-Rum." Furthermore, Law No. 30 was expanded by adding "Article Ten," which comprised the following provisions:(Article 86 to 97).

According to this comment, Kuwait updated the fundamental framework for Islamic banking and finance in 2003 in order to enhance the Islamic banking system and business by providing a service to both foreign and domestic institutions. New sukuk laws, on the other hand, have been imposed on entities that administer sukuks. (Abdullah, 2015:18).

In addition to these institutions, KFH played a significant role as the first bank to operate in conformity with the Isletarian Shari'a. As a result, KFH renewed its cooperation with Islamic financial institutions in order to assist the bank in developing the understanding and awareness of Islamic economics and finance among young people³.

³ <http://www.inceif.org>

In addition to infrastructure institutions, there are three sectors in Kuwait that govern Islamic rules, namely Islamic commercial banks, Islamic insurance companies, and non-bank Islamic institutions.

According to The Banker, Kuwait has five Islamic commercial banks, all of which are entirely Islamic. Only Ahli United Bank is a foreign bank: the table reveals that this bank, which originated in Al-Bajrain, runs Kuwait Finance House (KFH), which is recognized as an international institution with subsidiaries and subsidiaries in Bahrain and the Kingdom of Saudi Arabia. (Akkaş,2017:11)

Table 1.2. Islamic Banks in Kuwait

Institutions	Sharia Compliant Assets as a Percentage of Total Assets
1. Kuwait Finance House	100%
2. Ahli United Bank Kuwait	100%
3. Boubyan Bank	100%
4. Kuwait International Bank	100%
5. Warba Bank	100%

Reference: The Banker (November, 2016).

1.2.2.3. Oman

In compared to other GCC countries, the Omani banking sector has been slow to adopt Islamic financing. Although the regulatory foundation for Islamic finance was established by Royal Decree No. 114/2000 (Modification to the Banking Law - Islamic Banking Services, 2012), the implementation of Islamic banking may be attributed to Royal Decree No. 69/2012, which is an amendment to Royal Decree 114/2000. (Banking Law Amendment - Islamic Banking Services, 2012). The Central Bank of Oman and the Oman Financial Market Authority are the primary regulators of the Islamic banking business in Oman. According to The Banker, only Oman has Islamic commercial banks, whereas the rest of the GCC countries have various types of Islamic financial institutions. There are two Islamic banks in Oman that provide Shariah-compliant products and services. In January 2013, Bank Nizwa, Oman's first specialised Islamic bank, commenced Islamic banking operations. (Bank Nizwa, n.d.) Alizz Bank, which began Islamic banking operations in

September 2013, is the second fully operational Islamic bank⁴.

Table 1.9. Islamic Commercial Banks in Oman

Institutions Assets	Sharia Compliant Assets as a Percentage of Total
1. Bank Muscat	Windows %6.12
2. Nizwa Bank	100%
3. Bankdhofar	Windows %8.33
4. Bank Al Izz	100%
5. National Bank of Oman (Muzn)	Windows %3.54
6. Bank Sohar	Windows %4.74
7. Oman Arab Bank	Windows %4.74

Reference: The Banker (November, 2016).

1.2.2.4. The United Arab Emirates

The The United Arab Emirates's (UAE) most distinguishing feature is that it was the first bank in 1975 to incorporate Islamic principles into all of its operations. In the UAE, the regulatory framework for Islamic finance is specified in Federal Laws No. 6 of 1995, No. 4 of 2000, No. 6 of 2007, and No. 5 of 1985, which control civil transactions and Islamic finance. A guideline was produced by the Dubai Financial Services Authority. Additional regulatory bodies for Islamic finance in the UAE include the Central Bank of the UAE, the Dubai Financial Services Authority, the Emirates Securities and Commodities Authority, and the Insurance Authority of the UAE. Emirates of Arabia (Dubai Financial Services Authority, n.d., Central Bank of the UAE). United Arab Emirates (International Centre for Education in Islamic Finance ,INCEIF, n.d.).

Furthermore, in recent decades, the UAE has played an important role in international banking and commerce. In this regard, the Dubai Islamic Economy Growth Center (DIEDC) was founded in 2013 under Dubai Law No. 13 of 2013, with the goal of improving legal and institutional infrastructures that would aid in economic development. Many nations have Islamic sectors in Dubai. In this sense, the Islamic Economy Development Center in Dubai is built on seven pillars, with missions that include financial services, halal industry, tourism, digital infrastructure, art, knowledge, and standards. The Dubai Islamic Economy

⁴ <http://alizzislamic.com>

Development Center, on the other hand, not only promotes the Islamic finance industry but also looks after the non-financial sector. (DIEDC, n.d.).

Saudi Arabia has three kinds of Islamic financial organizations, according to The Banker: Islamic commercial banks, non-bank Islamic institutions, and Islamic insurance firms. There are eleven big Islamic commercial banks in the UAE, seven of which are fully operating in compliance with Islamic Sharia.

The principles are shown in the table, four of which have Islamic windows. Dubai Islamic Bank, established in 1975, was the first to incorporate Islamic precepts into all aspects of its business. Dubai Islamic Bank has risen to become the world's seventh largest Islamic commercial bank, placing seventh among all Islamic financial institutions (Dubai Islamic Bank, n.d.). Mashreq Bank is unique among Islamic banks in that Shariah-compliant assets account for 34.4 percent of total assets.

Table 1.4. Islamic Banks in The United Arab Emirates

Institutions	Sharia Compliant Assets as a Percentage of Total Assets
1. Dubai Islamic Bank	100%
2. Abu Dhabi Islamic Bank	100%
3. Emirates Islamic Bank	100%(DOS)
4. Emirates NBD	Windows %15.85
5. Al Hilal Bank (The Crescent Bank)	100%
6. Noor Bank	100%
7. Mashreq Bank	Windows %34.40
8. Sharjah Islamic Bank	100%
9. Abu Dhabi Commercial Bank (ADCB Meethaq)	Windows %8.05&
10. Ajman Bank	100%
11. National Bank of Abu Dubai	Windows %2.84

Reference: The Banker (November, 2016).

1.2.2.5. Qatar

Qatar, also known as "the economy of a little and huge nation" by those interested in the Gulf Cooperation Council's political economy (Kamrawa, 2015), is one of the most significant countries in the regional and worldwide financial markets. Regulatory structure The Islamic Finance Rulebook (ISFI), the Qatar Financial Center Law, the Prudential Insurance Rulebook (PINS), and the Private Placement System Rules have all influenced Islamic finance. The Qatar Financial Center Regulatory Authority, the Qatar Central Bank,

and the Qatar Financial Markets Authority are also Islamic financial regulators in Qatar (Qatar Financial Center Regulatory Authority, 2015; Qatar Central Bank, undated; INCEIF, n.d.). These financial agencies are in charge of building a deposit insurance system that includes Shariah-compliant features. The regulator made the announcement (QFC Regulatory Authority, 2015:49 and 87):

If the plan is an Islamic fund, all accounts and financial statements must be prepared and maintained in compliance with AAOIFI Financial Accounting Standards No. 14. The operator of an Islamic fund scheme, or a general scheme with an Islamic fund subsystem, must guarantee that the Shari'a fund has a supervisory board at all times, and the Islamic fund must have a supervisory board.

Qatar has four categories of Islamic financial organizations, according to The Banker: Islamic non-banking institutions, Islamic insurance firms, Islamic investment businesses, and Islamic commercial banks.

According to the table, there are four banks in Qatar that follow Islamic Sharia. Qatar Islamic Bank is the country's first and largest Islamic bank, having opened its doors in 1982. Masraf Al Rayan started Islamic banking operations in January 2016 and is governed by the Qatar Central Bank (Masraf Al Rayan, unpublished). Barwa Bank is Qatar's newest financial institution, providing a full range of Shariah-compliant financial services (Barwa Bank, n.d.). The Qatar Central Bank supervises Qatar International Islamic Bank, which was created in 1991. It is highly rated by international rating agencies and offers Sharia-compliant insurance, loan, and deposit solutions⁵.

Table 1.5. Islamic Banks in Qatar

Institutions	Sharia Compliant Assets as a Percentage of Total Assets
1. Qatar Islamic Bank	100%
2. Masraf Al Rayan / Al Rayan Bank	100%
3. Qatar First Bank	100%
4. Qatar International Islamic Bank	100%

Reference: The Banker (November, 2016).

⁵ <http://www.qiib.com.qa/Page/Details/16>

1.2.2.6. *Saudi Arabia*

From its founding, the Kingdom of Saudi Arabia has played an essential role in the development of Islamic banking. Throughout the 1970s and 1980s, many international conferences were held in Jeddah and Makkah. The current Islamic finance regulatory agencies are the Saudi Arabian Monetary Agency, the Capital Market Authority, and the International Association of Islamic Banks.

Among the institutions are the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Development of the Private Sector (ICD), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and the International Islamic Trade Finance Corporation (ITFC). The Islamic Development Bank was established in Jeddah by the Minister of Finance of the Organization of Islamic Cooperation in 1973. The Bank started operations in 1975 with 56 member countries, with the purpose of managing the member countries' economic development and social improvement, as well as other Islamic nations ⁶.

In order to achieve this goal, he established the Islamic Research and Training Institute in 1981. (IRTI). Its mission was to do research and provide training in Islamic economics in order to contribute to the worldwide expansion of the Islamic financial services industry. As a consequence, the International Research and Training Institute provides research, training, consulting, publishing, awards, and scholarships⁷.

Table 1.6. Islamic Commercial Banks in Saudi Arabia

Institutions	Sharia Compliant Assets as a Percentage of Total Assets
1. Al Rajhi Bank	100%
2. National Commercial Bank	Windows %45.73
3. Saudi British Bank (SABB)	Windows %52.75
4. Alinma Bank	100%
5. Arab National Bank	Windows %43.13
6. Samba Financial Group	Windows %30.66
7. Riyad Bank	Windows %31.90
8. Banque Saudi Fransi	Windows %38.54
9. Bank Al Jazira	100%

⁶ http://www.isdb.org/irj/portal/anony-mous/idb_faq_ar

⁷ <http://www.irti.org/English/Pages/default.aspx>

10. Bank Albilad	100%
11. Saudi Hollandi Bank	Windows %38.86
12. Saudi Investment Bank	Windows %34.82
13. Islamic Development Bank	100%

Reference: The Banker (November, 2016).

1.3. ISLAMIC BANKS IN TURKEY

In Turkey, the first instances of interest-free financing may be discovered in the 1960s, in the shape of tiny ventures, which were followed in 1975 by the establishment of the (Devlet Sanayi ve Isci Yatirm Bankasi)(DESIYAB, 'State Industrial and Labour Investment Bank'), and later in the 1980s by the issuance of (Kar- Zarar Ortakligi Bonosu)(KZOB), or profit-and-loss All of these short-term financing arrangements were set up only to support infrastructure development and have no goal of propagating Islamic financial concepts.

Separately, the Special Finance Houses SFHs, which were founded in 1985 as part of Prime Minister Turgut (zalforceful)'s liberalization campaign, were Turkey's first interest-free structured entities akin to Islamic banks. To differentiate these financial institutions from the country's conventional banks, the term "bank" was specifically avoided: As a consequence, SFHs were exempt from the legal framework of banks and functioned under Cabinet Resolution orders, suggesting that banking standards were not completely enforced to them. Importantly, its name was inspired by the laicist Turkish political culture of the time, which avoided any allusion to the term "Islamic."

Looking at the regulatory history of the industry, amid the early 1980s' harsh economic shifts, Zal's government issued Decree 83/7503 (16 December 1983), paving the way for SFHs. Albaraka Turk was the first SFH to be established in 1985, after the approval of the necessary by-laws by the government, and was followed the following year by (Faisal Finans); in both instances, Arab Gulf stakeholders had a dominating position. Other SFHs were established throughout time, such as Anadolu Finans in 1991, Ihlas Finans in 1995, and Asya Finans in 1996, all with Turkish money and management. However, Ihlas Finans faced a scramble for their savings as a result of the Turkish financial crisis, which began in the fourth quarter of 2000 and lasted until the beginning of 2001. The banking sector was going through a tough time, therefore the Banking Regulation and Supervision Agency (BRSA)

stepped in and revoked Ihlas Finans' license on February 10, 2001, citing clause 6) from Article 20 of the Banking Law No. 4389. The liquidation of Ihlas Finans firms, which has been ongoing up to this point, has commenced. Ihlas Finans' collapse necessitated evaluating the reasons that led to the institution's issues. This created a significant void in Turkey's Islamic banking industry. Since the big crisis has also hit other financial institutions, except for Ihlas Finans, they have all survived to rebuild their credibility. Ihlas' demise is due to a lack of funds and administrative concerns. (Ali, 2007:09), Several conventional banks collapsed during the crisis period due to systemic difficulties as well as chronic corporate governance failures. As a result of such failures, new laws were enacted to strengthen the financial system; as part of this process, SFHs were put within the banking sector's umbrella, extending to them all appropriate constraints. as stated by (Okumus,2005:55), "The SFHs have been subject to Banking Law No. 4389 from December 1999." In terms of reserve, foreign currency, and liquidity risk ratios, they were essentially subjected to the same set of laws as conventional banks, as well as supervision by the Treasury Under-Secretariat and the Central Bank of Turkey. Given the impact of Ihlas' failure on depositors, SFHs were incorporated into the 'guarantee system' used by conventional banks in May 2001 with the 'Assurance Fund' Decree: as a consequence, the SFH Association founded a separate entity known as the 'SFH Assurance Fund.' As a result of this new legislation, 'natural persons' current accounts and profit/loss participation accounts. [were] designated as insured deposits.' (Okumus,2005:56). The Turkish banking industry retained a degree of duality in terms of assurance system and regulation until 2005. (Asutay, 2013:215) The word "special finance house" was changed to "participation bank" ("katılm bankası") by Banking Law No. 5411 of 2005, and the Union of Special Finance Houses became the "Participation Banks' Association of Turkey" (TKBB). Furthermore, the state has extended its 50,000-lira deposit guarantee to participation banks. As a consequence, people were advised to invest their money into participation banks. vi Furthermore, the law has been harmonised to the point that Islamic and conventional banks now follow the same set of norms. All of these measures resulted in a more favorable regulatory environment for Turkish participation banks, and as a consequence, Islamic finance started to thrive more swiftly in the country. (Belge & Egresi, 2015:12). Due to the acknowledgement of the banking nature of (SFHs,) the new Banking

Act of 1 November 2005 was a watershed moment in the history of Islamic banking in Turkey. Beyond the Cabinet Resolutions of the previous time, the new legislation also established a thorough infrastructure for these banks: therefore, PBs and other conventional banks were brought under the new regulatory authority, BDDK (Banking Regulation and Auditing Agency), in 2005. This resolved the dualism that has existed in these banks' legal, regulatory, and operational frameworks since their formation in 1985. (Asutay, 2013:215)

In terms of the evolution of Turkish 'Islamic' banks' offerings (SFHs in the past; PBs today), more advanced products such as syndication, *istisna'*, leasing, and *sukuk* were developed in the 2000s, in addition to current accounts (*wadiah*), profit-sharing investment accounts (PSIAs), and financing tools via (commodity) *murabaha* and *mudaraba*, while future prospects indicate that PBs would target capital market-oriented products and investments as In this context, Kuveyt- Turk PB issued Turkey's first three-year *sukuk* (US\$100 million), which was placed on the London Stock Exchange via a special purpose vehicle in the Cayman Islands, in 2010, followed by a second *sukuk* (US\$350 million) in October 2011.(Asutay, 2013:216)

Changes in today's banking environment, as well as changes in corporate and retail banking customers' behavior caused by Covid-19, compelled the Participation Banks Association of Turkey to rethink its 2015 strategic objectives. The primary goals have been to improve communication with participation banking's target customers, to explain in detail the operational processes and functioning of the interest-free finance system, to develop mechanisms for collaboration with participants banking ecosystem stakeholders, to provide a product range that meets customer needs, and to increase the level of knowledge and awareness of individuals and sector employees.(TKBB and EY Turkey, 2021:09)

The development of Islamic banking in Turkey may be better understood by comparing it to Malaysia, which established Islamic banking about the same time, in 1983 and 1985, respectively. However, both nations' developments in Islamic financial services have taken quite distinct courses. Malaysia wants to become the leading country in Islamic financial markets via institutional development investments and the government's commitment to educational and skill development in the industry. This is attributable to Malaysia's strategic vision of Islamic finance, which is backed by government will. In

contrast to this dedication, the usage of the name "Islamic" in the Turkish banking sector is still regarded a "taboo" by both outsiders, especially the political elite, and insiders, particularly those working in the business. This reluctance can be found in publications produced by the TKBB, Turkey's Association of Participant Banks (<http://www.tkbb.org.tr>), which asserts and emphasizes that PBs are "not an alternative, but an essential component of the Turkish banking industry," in order to avoid upsetting the "apple cart." (Asutay, 2013:217) Following the discovery that participating banks are more robust in the face of financial crises, the sector's expansion gained traction in the aftermath of the 2008 economic crisis in Turkey and throughout the globe. Banking involvement has had a good influence on public perception of the system because it encourages a culture of collaboration aimed at risk sharing rather than the creditor-debtor relationship that already exists in the sphere of investment operations. Following government assistance, the sector began a significant growth trend in 2008, and its growth pattern stabilized in 2014. Beginning in 2018, growth quickened, and market share climbed from 6.3 percent in 2019 to 7.1 percent at the end of October 2020 (TKBB and EY Turkey, 2021:23):

1983 :They started working under the name of private financial institutions.

1984 : Establishment of Al Baraka Turk Bank and Faisal Finance Bank

1988 : Establishment of Kuwait Turkish Bank

1991: Founding of Anadolu Finans Bank

1995: Establishment of İhlas Finansbank

1996: Founding of Bank Asya

2005 : The foundation of Türkiye Finans and the title of "Participation Banks" began to be used

2014 : Ziraat Katılım Bank

2015 : Vakıf Katılım Bank

2019 : Emlak Katılım Bank

Table 1.7. The Following are the Major Events That Have Influenced the Development of Islamic Banking in Turkey.

Date	Event
1983	The legal framework for the operation of Islamic banks was created. These were known as "Special Finance Houses."

1985	Al Baraka (Bahrain) established its first Turkish subsidiary.
1985	Faisal Finans (Saudi Arabia) established its first branch in Turkey.
1989	Kuveyt Turk (Kuwait) opened its doors in Turkey.
1991	Anadolu Finance (domestic capital) was established.
1995	Ihlas Finans (domestic capital) , started operations
1996	Asya Bank (domestic capital) started operations
1999	The Banking Law No. 4389, which oversees Turkey's banking industry, now applies to finance firms.
2000	Turkish control Faisal Finans was bought by Ülker and renamed Family Finans House.
2001	Ihlas Finance House declared bankruptcy.
2001	The establishment of the Association of Special Finance Houses
2004	Special Finance Houses now have access to the state's 50,000 lira deposit guarantee.
2005	The Association of Special Finance Houses was renamed the Association of Participation Banks, and the Special Finance Houses Association was renamed the Association of Participation Banks.
2005	The Türkiye Finans Participation Bank was formed by the merger of Family Finans and Anadolu Finans.
2008	Saudi Arabia's National Commercial Bank (NCB) purchased 60% of Türkiye Finans for \$1 billion.
2010	It was decided to create a framework for corporate sukuk.
2010	Turkey's first sukuk, worth \$100 million, was issued by Kuveyt Turk.
2011	The Istanbul Stock Exchange issued the first participation index.
2012	first dollar denominated sovereign sukuk issuance, US\$ 1.5 billion
2012	lira denominated sovereign sukuk issuance US\$ 904 million
2013	Bank Asya issues the first lira denominated sukuk out of Turkey.
2014	The new mutual fund rule, "participation umbrella fund" (katılm şemsiye fonu), will encompass funds that do not own any interest-bearing instruments. Ziraat Katılım Bank
2015	Vakıf Katılım Bank
2019	Emlak Katılım Bank

Reference: Prepared by the researcher

1.3.1. The Current Situation of Islamic Banks in Turkey

Islamic finance consists of a number of components, including Islamic banks, Islamic funds, ukk, and takfuls. The global Islamic finance business was segmented as follows in 2018: 71.7 percent of the economy is Islamic banking, 24.2 percent is ukk, 2.8 percent is Islamic funds, and 1.3 percent is takful (Islamic Financial Services Board [IFSB], 2019: 10). Islamic banks, on the other hand, are the most important component. Sukuk are the second most important component of Islamic financing. Islamic funds are placed third after sukuk. Takfuls, often known as Islamic insurance, come in last place on the list. The four components of Islamic finance all have one thing in common: they all produce greater

returns, although at varying degrees and rates.

Islamic banking is known as 'participation banking' in Turkey. Turkey has six operational participation banks as of 2020. Emlak Participation Bank, Ziraat Participation Bank, and Vakf Participation Bank are all operated by the government. The other three are privately owned Albaraka Turk Participation Bank, Türkiye Finans, and Kuveyt Turk Participation Bank.

As of 2019 (Türkiye Katılm Bankalar Birlii [TKBB], 2020:122), participation banking accounts for 6.3 percent of total assets in the financial sector. Turkey, with its big Muslim population, offers enormous potential for a participatory banking system. However, current numbers from the Banking Regulation and Supervision Agency (BRSA) indicate that the market share of participation banks in Turkey has not reached the desired and expected level. Many countries that started Islamic finance operations at the same time as Turkey, such as Malaysia and the Gulf Cooperation Council (GCC) countries, have fared better.(Sayar & Azrak, 2021:56)

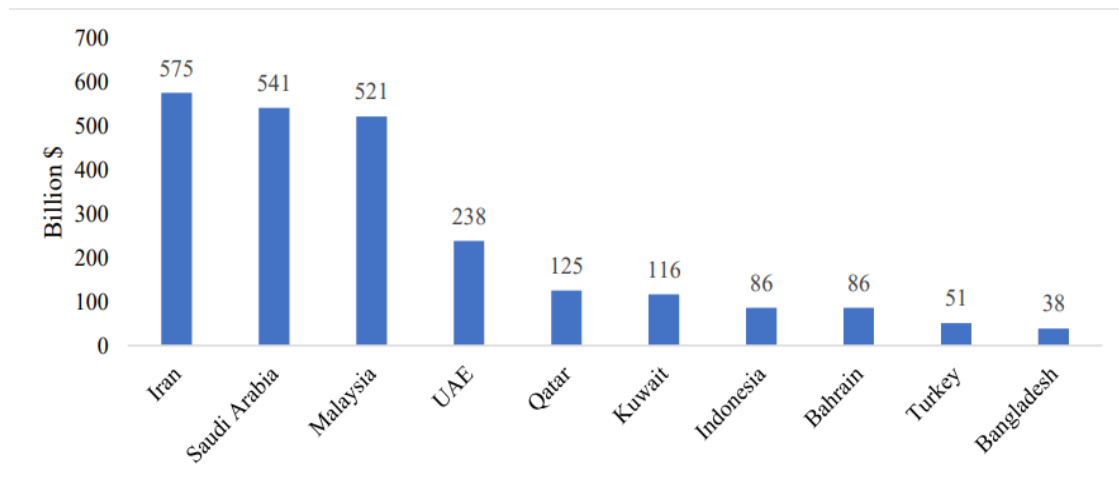


Figure :1.2. Top Islamic Financial Markets in Terms of Assets in 2018

Reference: (DinarStandard, 2019:55)

1.3.1.1. Albaraka Turk Participation Bank

It was founded in 1984 by the leading Islamic banks of Turkey in 1985 and started operating as an active bank. Strong Capital Group in the Middle East Al Baraka Banking Group (ABG) , The Turkish Economy and the Islamic Development Bank (IDB) Over a

half-century of operation as a participating bank founded under the leadership of a local industrial group, operations in Turkey in line with Law No. 5411, Al Baraka Al Turk owns a foreign share of 62.12% (Al Baraka Banking Group 36.29%; Dallah Al Baraka Holding 15.38%; Islamic Development Bank 7.84%; other 2.60%), local shareholding of 1.86% and the stock is open to the public at 36.02% of 01.09.2020. Total asset size is 51392.368.00 TL, according to basic financial statements. Total funds raised 39,769,408.00 TL and total loans 30,880,921.00 TL. As of June 2020, it operates with a total of 230 branches across Turkey and has a total number of 3884 employees. 1985- It started its operations as the first private financial institution in Turkey. 2011 - Opening of the first external branch in Erbil - Iraq. Through a Murabaha syndication of \$350 million, the largest syndicated loan in the sector was signed. And conducted the first agency transaction of the bank, 2018 - it increased the total number of branches to 230⁸.

1.3.1.2. Kuveyt Turk Participation Bank

Kuveyt Türk Katılm Bankas A. is an acronym for Kuveyt Türk Katılm Bankas A. It has been in the interest-free financing business since March 31, 1989. Through its dynamic corporate governance approach, new products, and worldwide growth, Kuveyt Türk Bank contributes to the development of participatory financial services. He has been working in the Turkish economy for more than 30 years. The bank has more than 6.8 billion Turkish liras of equity, and looking at its basic financial statements, the total asset size is 104,439,345.00 Turkish liras, the total funds raised are 85,494,387.00 Turkish liras and its total loans are 57,925,969.00 Turkish liras. As of June 2020, it operates with a total of 428 branches across Turkey and a total number of employees is 5955.

In terms of pooled funds, expanded funds, and asset size, Kuveyt Türk Bank leads the participating banks. Furthermore, Kuveyt Türk Bank ranks top among participating banks and third in the banking industry in terms of gold banking.

Kuveyt Türk Bank is a pioneer in the creation of banking sharing technologies and provides its customers with a variety of new goods and services. Kuveyt Türk, the first and only bank registered on the Istanbul Gold Exchange, launched the gram gold service in 2007,

⁸ <https://www.albaraka.com>

and has since achieved several breakthroughs in the area of gold banking both at home and abroad. Kuveyt Türk Bank has brought a variety of goods and services to the market, such as golden days, golden shares accounts, and gold vending machines through Automated teller machines ATMs.

In January 2019, Kuveyt Türk Bank, which had previously been listed on the Istanbul Gold Exchange and the London Bullion Market Association, became Turkey's first firm to be listed on the Shanghai Gold Exchange. Türk Kuveyt, which has progressed So far, the nation has used more than 20 tons of gold for commercial purposes by providing its clients with the service of calculating the gram of gold and withdrawing the gram of gold from ATMs.

Kuveyt Türk Bank concluded the first bank sukuk transaction in Europe and Turkey in 2010, and has subsequently issued sukuk in local and foreign markets totalling 16 billion Turkish liras, 2 billion dollars, and 800 million Malaysian ringgit. By issuing lease certificates worth more than 5 billion Turkish liras in 2018, the bank reached the highest sukuk issuance volume in Turkey, a 120 percent increase over the previous year. Kuveyt Türk Bank also works as a middleman for the Turkish Ministry of Treasury and Finance's gold-based lease certificates⁹.

1.3.1.3. Türkiye Finans Participation Bank

It represents the Saudi National Commercial Bank (Saudi Arabia), the main shareholder in Turkey Finance, as is the Bank of Turkey Finans company leader has made a remarkable transformation, supported by the "automatic growth", knowledge, experience and vision in-depth, soberly establish its name in the future Islamic banking services in the country.

Turkey Finance Bank was established in 2005 by the merger between Anadolu Finance - Turkey's first private finance company established in 1991 with entirely in-house funds - and Family Finance, It operated in the Islamic banking industry as Faysal Finance Koromu from 1985 and 2001 This illustrious alliance was formed with the goal of adding more value to Turkey and strengthening both organizations' competitive advantages.

⁹ <https://www.kuveytturk.com>

On December 28, 2005, the Banking Regulation and Supervision Agency (BRSA) authorized the merger of Anadolu Finance and Family Finance. On December 30, 2005, the bank's name was changed to Turkey Finance Katilim Bankasi.

This merger provided a fresh incentive for expansion in the Islamic banking industry, and Turkey Finance quickly became one of Turkey's major Islamic banks.

On March 31, 2008, the National Bank of Saudi Arabia bought 60 percent of Turkey Finance's shares, ushering in a new age of development and enormous transformation.

Because of the involvement of the National Bank of Saudi Arabia, one of the major capitals in the Middle East area, Turkey Finance has acquired a new and enhanced corporate identity, which has given great strength to Islamic banking, whose target audience has been steadily increasing.

Turkey Finance, in addition to taking firm steps toward sustainable growth, provides innovative and high-value-added products, services, and solutions to a diverse range of clients in the commercial, corporate, and retail banking sectors via its strong service platform, which on 30.11.2021 had 3,530 employees and 316 A branches, as well as effective alternative distribution channels¹⁰.

1.3.1.4. Ziraat Participation Bank

Ziraat Katılım Bank Joint Stock Company was established by Resolution No.: 6046 and dated: 10/10/2014 by the Banking Supervision and Supervision Authority (BDDK), with a capital of 657,000,000 Turkish Liras fully paid by the Treasury of the Republic of Turkey. And obtained the permission to start the activity through the decision of the Banking Supervision and Supervision Authority (BDDK) issued No. 6302, the capital of Ziraat Katılım Bank was increased to 1,750,000,000 Turkish liras, according to the decision issued at the Extraordinary General Assembly meeting of 2018. The total amount of assets is 36392174.00 TL, the combined funds are 25457245.00 TL and the total loans are 29.565.030.00 TL, as of June 2020, it operates with a total of 97 branches all over Turkey and the total number of employees is 1129¹¹.

¹⁰ <https://www.turkiyefinans.com>

¹¹ <https://www.ziraatkatilim.com>

1.3.1.5. Vakıf Participation Bank

Vakıf Participation Bank AŞ; It was incorporated as a joint stock company on 06.25.2015 with the permission of the Banking Regulation and Supervision Agency published in the Official Gazette on 03.03.2015 and No. 29284 on 27.02.2015 and No. 6205, and obtained On February 17, 2016, the Banking Regulation and Supervision Agency granted the company an operational license. Merged enterprises, whose capital is entirely managed and represented by the General Directorate of Enterprises, the amount of paid-up capital is 3,220,000,000 TL. Looking at the basic financial statements, the total assets volume is 30,348,784.00 TL, the total combined funds are 22,953,215.00 TL and the total loans are 18,770,501.00 TL. As of June 2020, it operates with a total of 106 branches across Turkey and a total number of employees is 1,322. One of the youngest members of the participating banking sector, it continues its activities as an important institution of the “Culture of the Enterprise”, which has been alive for centuries as an important part of our culture and is still alive by its main founder, DG Enterprises.

Combining the culture of the enterprise, which is an important part of fair social life, with the principles of interest-free banking, Vakıf Participation aims to carry out its activities under the principle of being beneficial not only to its partners or clients, but also to the whole society, with the important mission that He did it this way¹².

1.3.1.6. Türkiye Emlak Participation Bank

After years of national struggle, it was established under the name Emlak ve Eytam Bank with the signature of Mustafa Kemal Atatürk in 1926 in order to advance the young Turkish Republic, support construction projects and protect the rights of orphans.

In the early years of its establishment, it undertook projects such as the New Parliament Building, the Turkish Fireplace Building, and the Central Bank Building, which are the most prominent examples of the First National Architectural Period. After the Bank realized the construction of Bahçelievler Residences, the first housing project in our country, the Bank also presented the first example of the housing loan financing model with the system it used in this project. Saracoğlu district, Levent Residences, Koşuyolu and other landmarks,

¹² <https://vakifkatilim.com>

which were later revived throughout the country, have contributed greatly to the development and development of the country.

The bank, which changed its name several times over the years due to the changing needs of the country, continued its path as Emlak and Eytam Bank, respectively, under the titles Turkey Emlak Kredi Bank and Türkiye Emlak Bankas.

Turkey Real Estate Participation Bank, which opted to re-enter the market as a participating bank in 2018, received its operating license in 2019. Today, the service is still available, thanks to its 95-year history and knowledgeable banking employees.

Turkey Real Estate Participation Bank will develop sustainable and accessible financing models in the economic cycle from producer to consumer for strategic sectors that have a high contribution to economic growth and employment, especially the construction sector.

In addition, Türkiye Emlak Katılım Bankası will make significant contributions to the growth of Participation Banking and increase its share in the sector by implementing new product and service models for Participating Banking. As of June 20, 2020, it operates with 15 branches across Turkey¹³.

1.3.2. Turkey's Association of Participation Banks

The Association of Participating Banks in Turkey was established by the Banking Law of 04.10.2001 and No. 3138/2001 on the Enforcement of the Association's Statutes, which at that time was called the Private Finance Houses Association. According to the Banking Law No. 5411 of 01.11.2005 and the Association Statute No. 2006/10018 On 28.02.2006, the association received its current title of Association of Participating Banks of Turkey. The Association of Turkish Participating Banks (Türkiye Katılım Bankaları Birliği – TKBB) is a professional public institution established under the relevant provisions of the Banking Act. TKBB is the principal representative of Turkey's participating banking industry, and it collaborates with the government, regulators, and other stakeholders to increase public knowledge and understanding of the sector's contribution to the Turkish economy. TKBB has a set of working committees to support the priority issues of member

¹³ <https://emlakkatilim.com.tr/en>

banks and also conducts extensive training programmers.(Albaraka Türk Katılım Bank, Kuveyt Türk Katılım Bank, Türkiye Finans , Ziraat Katılım Bank, Vakıf Katılım Bank, Emlak Bank)

All participating banks in Turkey are required to be a member of TKBB within one month of obtaining a banking license. As of today, there are six participating banks that are members of TKBB.

The main objectives of the (TKBB) include:

- Defending the rights and interests of participating banks in line with banking legislation, principles, and norms within the context of a free-market economy and the concept of full competition.
- Advocate for the financial system's healthy growth, the advancement of the banking profession, and the enhancement of competitiveness.
- Make certain that the essential choices are made, executed, and demanded in order to establish a competitive atmosphere¹⁴.

Vision and mission: The Turkish Participating Banks Association (TKBB) aspires to increase the participating banking sector's market share to 15% by 2025 while also providing world-class financial products and services.

The objective of TKBB is to guarantee the healthy and sustainable growth of participating banking services in Turkey. <https://tkbb.org.tr/>

- Expand and enhance product offerings and service quality.
- Enhancing company communication, perception management, and reputation management.
- Improving training, human resources, and certification programs.
- Create laws, rules, and regulations relating to banking participation principles.
- Assisting in all efforts to make Istanbul a premier financial hub.

1.4. DEVELOPMENT OF THE ISLAMIC FINANCE SECTOR

The total value of interest-free banking assets, outstanding sukuk, Islamic fund assets, and takaful increased by 11.4 percent (US\$2.2 trillion) in 2019 to \$2.44 trillion. Despite

¹⁴ <https://tkbb.org.tr/sayfa/detay/tarihce-156>

global economic issues and a bad financial market climate, this rise has happened in the interest-free financing sector internationally, has been made possible in part by the involvement of Islamic capital markets and interest-free banking districts. The Gulf nations account for 45.4 percent of the global interest-free financial sector, with the Middle East and South Asia accounting for 25.9 percent and Southeast Asia accounting for 23.5 percent. (IFSB Report, 2020:5) In terms of both value and quantity of funds, Islamic funds played a major role in the interest-free financing market in 2019. Total fund value rose from 67.1 billion USD in 2018 to 102.3 billion USD in 2019, while total fund number increased from 1,489 in 2018 to 1,545 in 2019. The majority of the 353 takaful companies that provide takaful products such as takaful windows and re-takaful are located in the Gulf countries, the Middle East, Asia, and the south. Asia and Southeast Asia Takaful volume reached \$11.7 billion in 2018, with the Gulf countries accounting for the lion's share of the global market (43 percent). (TKBB and EY Turkey Report, 2021: 13)

Large mergers in the Gulf nations to improve competitiveness and secure solid and permanent capital, as well as productivity development, have resulted in a rise in Islamic banking assets compared to the previous year. Iran has the highest share of total interest-free banking assets in the world, accounting for 28.6 percent, followed by Saudi Arabia (24.9 percent) and Malaysia (11.1 percent). On the third quarter of 2019, Turkey placed eighth in the list of worldwide interest-free banking assets, with 2.6 percent.

Both Iran and Sudan claim to have completely interest-free banking services as part of their economic systems. The prevalence of interest-free financial services in Saudi Arabia climbed from 52% in the second quarter of 2018 to 69% in the third quarter of 2019. In Kuwait, Malaysia, Bangladesh, Qatar, and Jordan, usage of interest-free banking services increased in comparison to 2018. As of October 2020, the prevalence of interest-free banking in Turkey is 7.1 percent. (TKBB and EY Turkey, 2021:13)

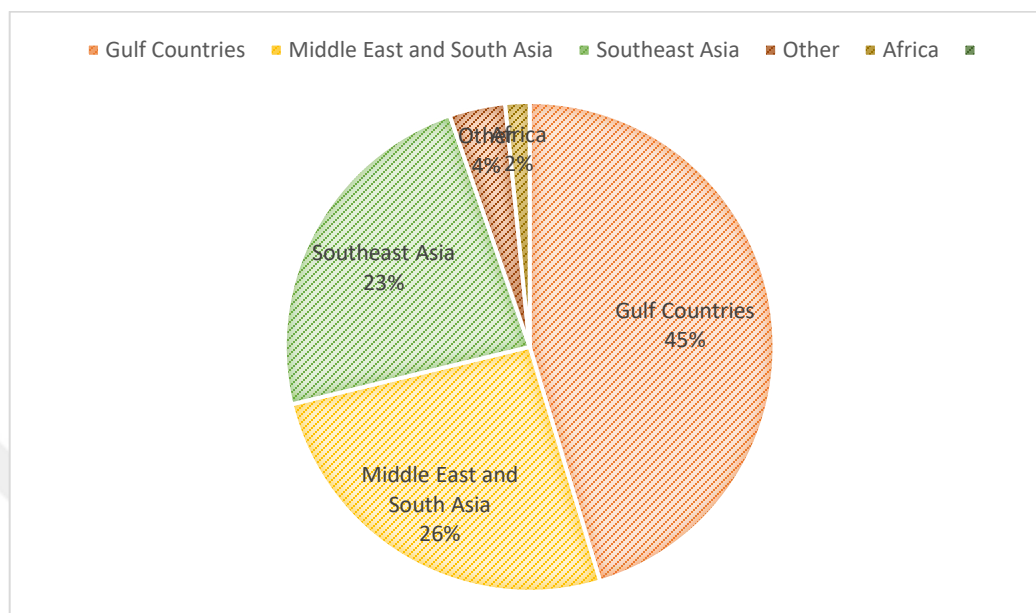


Figure 1.3. Global Interest-free Banking Assets by Country, 3rd Quarter of 2019

Reference: TKBB and EY Turkey, 2021:13.

1.5. ISLAMIC CAPITAL MARKETS

The Islamic Capital Market ICM industry has continued to develop in 2019. The sector is worth around USD 645.7 billion and accounts for 26.5 percent of global Islamic financial services industry IFSI assets. Investment funds grew by 22.2 percent in 2019 compared to 2018, and continue to lead the Islamic Capital Market ICM sector in terms of asset share. Strong sovereign and multilateral issuances in important Islamic finance markets to fund respective budgetary expenditures, as well as a rise in corporate issuances in different jurisdictions, contributed to the excellent performance in 2019. In contrast to the trend witnessed in global equities markets in 2018, Islamic funds performed well in 2019, with a 29.8 percent gain in assets under management (AuM) and a 3.8 percent increase in the number of Islamic funds over 2018. (Report IFSB, 2020: 6)

1.6. INSTITUTIONS SUPPORTING THE ISLAMIC FINANCIAL INDUSTRY

Islamic financial institutions, as one of the pillars of the infrastructure formed for the Islamic financial industry, play an important role in the development and development of Islamic finance in its various forms and mechanisms, and it constitutes a supportive

environment for Islamic banking. Internationally applicable and followed Sharia rules and controls that prevent Islamic financial institutions from dealing with forbidden interest and financial tools created by modern financial engineering and based on forbidden interest, such as financial derivatives and Islamic sukuk, which created a new trend locally and internationally in the field of Islamic finance, which has financing tools that match the traditional financing tools. In this context, sukuk appeared Islamic finance, which is considered by some Islamic finance experts as one of the most prominent innovations and innovations of Islamic financial engineering as an alternative to the traditional tools, which contributed to extinguishing the effective efficiency of the products of the Islamic financial industry. (Rabeh & Sheikh, 2018:56)

These institutions that assist the Islamic financial sector are also divided into numerous categories, which we will discuss below.

1.6.1. Accounting and Auditing Organization for Islamic Financial Institutions

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is one of the most well-known global non-profit organizations dedicated to assisting Islamic financial institutions. It was founded in 1991 and is headquartered in the Kingdom of Bahrain. It has made significant professional contributions, the most notable of which is the publication of 100 standards in the fields of accounting, auditing, work ethics, and governance, in addition to Sharia norms recognized by central banks and authorities. The authority is supported by a number of member institutions from over 45 countries, including central banks, regulatory bodies, financial institutions, accounting and auditing organizations, and legal offices. The authority's guidelines are now used by top Islamic financial institutions all over the world, providing a high level of uniformity for Islamic financial processes worldwide¹⁵.

1.6.2. The General Council of Islamic Banks and Financial Institutions

The General Council of Islamic Banks and Financial Institutions (CIBAFI) is an international organization that was established in 2001 by a royal decree issued by the

¹⁵ <https://aaoifi.com/>

government of the Kingdom of Bahrain. It is headquartered in Bahrain and a member of the Organization of Islamic Cooperation (OIC).

The General Council is the official umbrella organization for the global Islamic financial industry, with the objective of facilitating collaboration among members and other financial institutions with shared interests and goals, as well as supporting, growing, and preserving the Islamic financial services sector.

The General Council includes in its membership more than 130 financial institutions, distributed over more than 34 countries, that include the most important activists in the Islamic financial market, international multilateral institutions, and professional associations in the industry. It is known as one of the organizations and the main building blocks of the Islamic financial architecture. The General Council's mission is to promote and expand the Islamic financial services sector in order to realize the real economy and Sharia's goals by supporting and defending it in regulatory, financial, and economic policies that are in the best interests of all members¹⁶.

One of the goals of this council

- 1- Create and expand Islamic financial institutions, as well as communicate principles and norms governing their operations and the growth of the Islamic banking sector in general.
- 2- Setting standards for Islamic institutions, and ensuring their compliance with the provisions of Islamic Sharia.
- 3- Interest in acquiring trustworthy information on Islamic banks, financial institutions, and Islamic bodies.
- 4- Strengthening collaboration among Council members and equivalent entities in areas where shared aims may be served by using all available methods..(Rabeh & Sheikh, 2018:60)

¹⁶ <https://cibafi.org/>

1.6.3. International Islamic Financial Market

The International Islamic Financial Market (IIFM) develops Islamic capital and money market concepts, as well as contract and product templates. One of the IIFM's primary objectives is to ensure that global best practices in Islamic financial markets are efficient and transparent. The Standard Setting Authority was founded in 2002 by the Central Bank of Bahrain, the Islamic Development Bank, the Bank of Indonesia, the Central Bank of Sudan, Bank Negara Malaysia (represented by the Labuan Financial Services Authority), and the Autoriti Monetari Brunei. Dar es Salaam as founder members, as well as Dar es Salaam. Currently, the group consists of 62 banks and other financial institutions from across the world. (M. K. Hassan et al., 2019:S6)

The objectives of the Islamic financial market:

The Islamic financial market seeks to achieve the objectives of the pursuit of your goals in the following:

- Establishing an international market based on the provisions and principles of Islamic Sharia, its organization and development;
- Improving the cooperative framework among financial institutions globally;
- Coordination of public markets, general decision-making rules, and marketing of Islamic financial goods and instruments;
- Seeking retail environment that will encourage both Islamic and non-Islamic financial institutions to participate in market effectiveness;
- Work to improve the framework of cooperative action between Islamic countries and establish positive aspects;
- Addressing the liquidity problem of Islamic banks, their investment, their investment, and new investment tools secondary market and new investment opportunities.(Rabeh & Sheikh, 2018:63)

1.6.4. Liquidity Management Center

The Liquidity Management Center (LMC) is a licensed Islamic investment bank and a Bahraini joint stock company created in 2002. Its purpose is to enable Islamic financial

institutions to manage their liquidity via short and medium-term investments in accordance with Islamic Sharia rules.

The center aims to address the problem of increasing or decreasing liquidity in these institutions by using investment tools and encouraging dealing with the liquidity management center. The financial liquidity management center also aims to reduce risks. An active shareholder in the securities issuance market is considered an active shareholder in the initial sukuk issuance market, by arranging these issues or acting as an advisor. The Center is also working on creating a secondary market for trading in Shariah-compliant investment instruments for short periods. The center has the professional ability to arrange investment instruments that are compatible with Islamic Sharia for different periods of time.

In October 2005, the Bahrain Liquidity Management Center launched its website, which is concerned with recording and monitoring the movement of supply and demand for sukuk, in order to contribute to the creation and establishment of an active secondary market for sukuk (Islamic bonds) and to advance the development of the Islamic banking sector to develop and expand primary and secondary markets. For the development of the Islamic financial market.

The Liquidity Management Center works with Islamic banks and financial institutions to help them issue sukuk. as it did with the First Islamic Investment Bank by offering its first issuance of Islamic sukuk (bonds) worth 75 million euros, which were known as the “Euro Knights”. Noting that the subscription to the sukuk exceeded expectations. At a value of €25 million, especially in regards to being Sharia-compliant sukuk. The Bahrain Financial Harbor also chose the "Liquidity Management Center" to manage the financing process for the first phase of the port project, which includes the two towers, the financial complex and the port, at a cost of 250 million dollars, as the center will manage and organize the Islamic financing process. .(Rabeh & Sheikh, 2018:66)

1.6.5. Islamic International Rating Agency

The Islamic Worldwide Rating Organization (IIRA) is a global Islamic rating organization based in Bahrain that began operations in July 2005. It originated as an infrastructure institution to assist Islamic finance, as the Islamic Development Bank

envisioned (IDB). This places IIRA in the same league as system-supporting organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). The IDB remains a significant investor and wields authority via its selection for chairman of the board of directors. The IIRA is set up in such a way that it can function independently. It features an entirely independent board of directors as well as a grading committee. In a number of foreign jurisdictions, including the Central Bank of Bahrain (CBB), the Central Bank of Jordan (CBJ), and Turkey's Banking Regulatory and Supervisory Agency (BRSA), the IIRA is legally recognized as an accredited External Credit Assessment Institution (ECAI). IIRA ratings enterprises in a broad variety of Islamic nations, and its sphere of impact has progressively extended in recent years. IIRA's main focus is on the development of local capital markets, notably on the territory of Organization of Islamic Cooperation (OIC) member nations, as well as providing impetus to ethical finance throughout the world via its ratings. By evaluating relative investment or credit risk and giving an evaluation of company and infrastructure risk profiles, the IIRA has helped to create regional and national financial markets. It is a one-of-a-kind rating agency that was founded to provide capital markets and banking services to mostly Islamic nations. While traditional rating agencies are important in researching conventional banks and the instruments they issue, the IIRA specializes on rating, grading, and assessing Islamic financial institutions and products¹⁷.

IIRA Provides a Variety of Ratings. The IIRA gives sovereign, credit, Shari'ah quality, and corporate governance ratings. Sovereign and credit ratings assess the chance that a company will return its debts on schedule. Shari'ah quality ratings assess how well Shari'ah principles are observed, while corporate governance ratings assess an entity's operations to establish the delineation of stakeholders' rights and obligations, as well as compliance with current decision making norms and processes.

The categories of IIRA sovereign Sukuk (Islamic bonds) ratings are presented below as an example.

¹⁷ <http://iirating.com/about.aspx>

The following are IIRA's six key criteria for appraising sovereign Sukuk and the risk of any default on debt obligations at maturity:

- A. Hassan and Mollah (2018):309
- A. Policy Continuity and Politics
- B. The Economy—Its Structure and Prospects for Growth
- C. Fiscal and Budgetary Policy
- D. Monetary Policy and Monetary Flexibility
- E. External Accounts
- F. Debt, both internal and external.

1.6.6. Islamic Financial Services Board

The Islamic Financial Services Board (IFSB) commenced operations on March 10, 2003. Its headquarters are in Malaysia, particularly in Kuala Lumpur. The host country of the Islamic Financial Services Board has established legislation known as the Islamic Financial Services Board Act 2002, which grants the Islamic Financial Services Board protection and advantages normally granted to international organizations and diplomatic missions. The IFSB's objectives are as follows:

- A. Encourage the establishment of a prudent and transparent Islamic financial services sector by establishing or adopting new international standards based on Islamic Sharia principles and promoting their implementation.
- B. Provide recommendations on efficient supervision and regulation of Islamic financial institutions, as well as the growth of the Islamic financial services sector, as well as guidelines for detecting, assessing, managing, and communicating risks while taking international assessment standards, revenue, and costs into consideration.
- C. Coordination and cooperation with suitable organizations that establish current requirements for the stability and integrity of the international monetary and financial systems, as well as those of member countries.
- D. Promote and organize initiatives targeted at creating tools and processes for effective operations and risk management.

E. Encourage member-state cooperation in the development of the Islamic financial services sector.

F. Promote training and personal development in areas pertinent to the successful regulation of the Islamic financial services sector and related markets.

G. Conducting research and releasing papers and surveys on the Islamic financial services industry

H. Create a directory of Islamic banks , financial institutions , and industry specialists.

I. Any other goals that the IFSB General Assembly may adopt from time to time.

J. founder member

As of December 2017, the IFSB has 185 members from 57 countries, including 75 regulators and supervisors, eight intergovernmental organizations, and 102 market participants (financial institutions, professional bodies, industry groupings, and exchanges).

The International Financial Services Board (IFSB) is the global standard-setting body for regulatory and supervisory bodies interested in ensuring the integrity and stability of the Islamic financial services industry, which encompasses banking, capital markets, and insurance. To that end, the IFSB promotes and advises the formation of a sensible and transparent Islamic financial services industry by adopting new international standards or aligning them with Islamic principles. In this sense, the work of the IFSB supplements that of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, and the International Association of Insurance Supervisors. (A. Hassan & Mollah, 2018:306)

The Council sets regulatory and supervisory standards for the Islamic banking industry and regulates its relationship with the central banks in its countries and with the global financial system.

A. Capital Adequacy Standard

B. Risk management

C. Institutional management

D. Transparency

E. Market discipline

F. Controls for the management of Islamic financial institutions

1.6.7. The International Islamic Centre for Reconciliation and Arbitration

The Islamic Development Bank and the General Council of Islamic Banks and Financial Institutions collaborated to create the International Islamic Center for Reconciliation and Arbitration (IICRA) on Safar 26, 1426 AH, equivalent to April 5, 2005 AD. The center was established after a research determined that there is an institutional vacuum in the area of Islamic Sharia-compliant arbitration.

The establishment of the center came with the concerted efforts of the Islamic Development Bank, the General Council of Banks, Islamic financial institutions, and the United Arab Emirates as the headquarters country and a service to the Islamic financial industry in its technical and legal dimensions. And experts who are judged according to the provisions of Islamic Sharia and man-made laws, and they enjoy a good reputation and integrity. The center also provides several legal and legal services in support of the financial industry. The meeting of the Constituent Assembly of the Center was attended by more than (70) Islamic bodies from various Islamic countries and members of the Organization of Islamic Cooperation; Where the articles of association and organizational structure of the center were approved¹⁸.

The center has grown to become one of the most significant infrastructural organizations for the Islamic finance sector and its legal arm, establishing the ideal international platform specializing in resolving banking, financial, and commercial tendencies in a way that does not violate Islamic Sharia principles and provisions through institutional conciliation and arbitration, and in accordance with best practices and standards approved internationally

The center's goal is to allow all participants in the Islamic financial sector, whether natural or legal persons, to settle banking, financial, commercial, real estate, and investment issues via specialized institutional mediation and arbitration capable of adequate legal adaptation. The legitimacy of financial transactions, as well as their avoidance of long litigation periods and high costs. Therefore, the center aims to:

¹⁸ <https://www.iicra.com/about-iicra/>

- A. Examining conciliation efforts to resolve disputes and managing them institutionally until the completion of the conciliation document.
- B. Managing arbitration cases in accordance with the best international practices through the approved arbitration rules.
- C. Take all necessary measures to resolve banking, financial and commercial disputes in a manner that does not conflict with the provisions of Islamic Sharia.
- D. Providing listings of arbitrators and specialists in the Islamic finance business in a variety of languages and areas.
- E. Organizing scientific events to spread the culture of arbitration specialized in Islamic financial transactions.
- F. Publishing research and offering legal advice on the center's operations and goals to promote the Islamic finance sector¹⁹.

1.7. ISLAMIC FINANCIAL INSTRUMENTS

When the concept of Islamic finance was first put into effect on a global basis, there were few Islamic financial products available. The idea's forefathers were not provided a model for Islamic finance in actuality. The majority of Islamic financial instruments seen today arose from the daily operations of Islamic finance and banking. These instruments have been produced from time to time in response to the nature of a particular Islamic financial institution's activity and the demands of certain markets. As the Islamic finance sector expands and becomes more sophisticated, the range of Islamic financial products expands as well. Although a large variety of financial products claim to be Islamic, not all of them are suitable from a Shariah perspective. Shariah experts rejected several of the instruments when they were not uniformly recognized. Profit and loss sharing instruments are an excellent form of Islamic finance, but they only play a secondary role in reality since Islamic financial institutions are not flexible enough to deal with all present day financial challenges. Several other forms of Islamic financial instruments, on the other hand, have gained popularity, although they are still being disputed. Although their legal structure is Shariah-compliant,

¹⁹ <https://www.iicra.com/>

their economic effectiveness is identical to that of interest-based financial instruments, which Islamic financial theories aim to replace.

The predominance of the Halal financial instrument, on the other hand, may be recognized. The following are the most common forms of Islamic financial instruments: (Islamic, 2005, 124)

- Instruments based on profit-and-loss sharing
- Contracts based on sales
- Contracts based on leases

1.8. ACTIVITIES OF ISLAMIC BANKS

One of the most significant tasks of Islamic banks is the ability to accept a variety of deposits, and another is the ability to use halal money. Islam has created a wide range of permissible ways to use and invest money, such as by combining money with money or combining money with labour. A good alternative to the practices of greedy commercial banks can be found in any one of these options.

1.8.1. Islamic Banking Business

Islamic banking services and Islamic banking businesses, An Islamic bank or a bank that engages in Islamic banking may perform the following (Maldives's Constitution, 2011:8):

- a) Mobilize funds in the form of deposits such as demand deposits, savings, or other compatible forms based on Islamic Shariah-compliant contracts.
- b) Investment products based on Islamic Shareah-compliant contracts.
- c) Distribute financing to customers for leasing mobile or immovable commodities based on the contract ijarah and/or lease purchase in the form of an ijarah or other contract that is not in contradiction with the Islamic Shareah.
- d) Make a loan or incur debt based on contracts that are permitted under Islamic Shariah.
- e) Debit or credit card business based on Islamic Shareah-compliant contracts.
- f) Carry out custody in the interests of third parties, such as supplying safe deposit boxes, in accordance with Islamic Shareah contracts.

- g) Transfer money, both for one's own advantage and for the benefit of customers, using Islamic Shariah-compliant contracts.
- h) Act as trustees in line with the wakalah contract; I Provide letter of credit facilities and bank guarantees in compliance with Islamic Shareah contracts.
- i) Engage in any other Islamic banking activity that the Authority has recognized as appropriate for Islamic banks to carry out.

1.8.2. Fundraising Methods

When it comes to meeting the norms of liquidity, profitability, and solvency, banks and Islamic financial institutions must keep an eye on where the money coming from funding operations goes. Similarly to traditional financial organizations and banks, Islamic banks serve as a conduit between a group of people or economic units that have excess funds and those that do not have enough. There is no doubt that this Islamic bank can help parties in need of finances by transferring additional funds to them. In this case, Islamic financial institutions must also comply with shariah requirements when gathering and distributing assets. Because Islamic financial institutions will be penalized by financial services authorities and Islamic financial institutions' sharia supervisory boards if they do not operate sharia-compliant financial institutions.

Islamic banks, like conventional financial institutions or conventional banks, function as intermediaries or middlemen between a group of people or economic units with extra cash and other units with insufficient finances, just like conventional financial institutions. Naturally, this Islamic bank can transfer surplus funds to parties in need of financial assistance, which is advantageous to both parties. To avoid being forced to operate sharia financial institutions that violate sharia principles, Islamic financial institutions must collect and disburse funds in line with the norms of the Islamic sharia supervisory boards and their officials (Susanti, 2020: 541).

As a result, sharia-compliant money management systems are required by Islamic financial institutions. To begin, funds are gathered from Islamic financial institutions, and at the conclusion, clients transfer funds to Islamic financial institutions. Financial institutions, particularly Islamic financial institutions, must raise money from the general public,

therefore fund raising is a must. When Covid 19 spread, fund collection was reduced, and Islamic banking organizations also saw a drop in funding. As a result, the community's income is decreasing. Many people have seen their earnings collapse during a pandemic like this one, and some have been forced to quit their jobs because their firms couldn't afford to pay them. Islamist financial institutions' capacity to raise funds is obviously affected by this. There needs to be an investigation into how Islamic banking institutions can raise money amid a pandemic like this. (Rahman, 2021: 202).

In today's financial markets, people are increasingly demanding high levels of ethical behavior from financial organizations, and Burnside (2011) believes that Islamic banking is well-positioned to succeed in this environment. Non-Muslims see this industry as an ethical banking alternative (Housby, 2013: 25). Furthermore, according to another study, Islamic banking has great development and extension potential if it can convince the world community of its ethical elements and acceptability for non-Muslims who value this issue. Islamic finance (Ainley et al., 2007: 10). Any Islamic banking system must incorporate the concept of profit-sharing and loss-sharing (Dar and Presley, 2000: 13).

Because Islamic jurisprudence allows for a wide range of financing options, Hassoune and Volland (2006) argue that Islamic banks use a mix of equity and debt-based instruments, setting them apart from conventional banks. Because of the profit and loss mechanism Islam has in place, it is able to counteract inflationary pressures, a problem that Siddiqi (2002) argues is inherent in money loan transactions. Uqud (contract) equips Muslims with a comprehensive grasp of the many contractual exchanges that take place in human life (Riaz, 2014: 31).

1.8.2.1. Current Accounts

Islamic finance institutions receive deposits from savers by offering Shariah-compliant products that are superior to those offered by traditional banks in terms of return, risk, liquidity, maturity, security, and stability, among other aspects. As with other bank accounts, this one effectively acts as a safe haven for one's funds. The bank guarantees and honors withdrawals from this deposit account, including checks drawn on it. While the safekeeping service is complimentary, banks also offer a variety of other services that make

withdrawals convenient whenever and wherever they are required, including checking, ATM cards, charge cards, traveler's checks, telephone banking, branch service, standing instructions, statement request, balance inquiry, and remittances (Obaidulla, 2015: 49).

The product is constructed using a number of Shariah-compliant processes; these accounts are modeled by wadiah-wad-dhamanah, or bank-guaranteed deposits. Deposits are held as amana or in trust and are used at the bank's discretion. The depositor is not a party to either the risk or the return. The bank is solely liable for any profit or loss on these funds. Additionally, such deposits are not subject to any deposit or withdrawal limits. The term "wadiah accounts" or "trust accounts" refers to these types of deposits. Alternatively, these deposits should be viewed as qard, or benevolent loans from the depositor. As a result, the bank maintains a current account known as a "qard hasan." As previously mentioned, the bank is free to spend these funds at its own risk. The depositor is not entitled to a return in his or her capacity as a lender, as this would constitute riba. In practice, any benefit conferred on the depositor as a result of the arrangement is regarded as riba. The qard hasan model is less popular among bankers than the wadiah model, for the simple reason that marketing considerations require the depositor to get additional incentives. Benefits to the lender (in this case, the depositor) are properly frowned upon within the qard hasan framework, as they violate the process's spirit (Obaidulla, 2015: 50).

1.8.2.2. *Investment/Participation Accounts*

Islamic banks do not manage investment accounts in the same way as they do deposits. A partnership contract (murabah) or an agency contract (wakala) is the most popular form of business arrangement. According to the terms of each partnership agreement, bank and investment account holders share in the profits created by financing and investment operations. Instead of being a promise, these profits are meant to be taken for granted. If the account holder's principal or returns are not adequately protected by the bank, the account holder may not have the same legal rights as depositors at commercial banks. They are not considered Islamic bank liabilities in many cases. They are often regarded as belonging to the account holder, who is ultimately accountable for the bulk of the funds in the account. These accounts' earnings, to the extent that the Islamic bank is responsible for them, can be

viewed as an asset for tax purposes. There are two types of profit-sharing investment accounts that can be classified to (Awadzi, 2015: 13-14):

1. A Shariah-compliant asset may be invested in an unconstrained investment account, which provides the bank entire discretion to invest. The most common PSIAs are mentioned here. An account holder's funds may be invested in the bank's own assets as well as those held on behalf of other account holders. It makes it impossible to place them in the accounts of specific customers. It's important for banks to know how much of a stake each partner has in a particular asset (including the bank's shareholders).
2. Restricted investment accounts: These accounts are distinguished by the bank's mission being limited to investing account holder's cash in certain assets agreed upon by the account holder, often through an investment vehicle. Due to the fact that these underlying assets are not typically included in the bank's own assets, finding and transferring or selling them to benefit account holders in the case of a bank failure is quite simple. As a result, the funds of multiple customers with restricted investment accounts tend to be pooled and consolidated. Although losses will almost probably be compensated for based on the asset's relative contribution, asset tracking may not always be practicable.

1.8.2.3. Sukuk

Holders of Sukuk bonds and certificates are said to be owning an underlying asset, which is represented by the possession of a certificate or bond. Investors receive a piece of the asset's profits according to their percentage of ownership. Sukuk can be issued by both government and commercial entities (Usman et al., 2011:53).

Sukkah arrangements vary, but in general, the originating bank transfers assets to an SPV in exchange for the SPV's earnings from the sukka issue, which in turn is used to pay the originating bank. In the case of sukuk ijarah, for example, investors receive certificates that represent some interest in the underlying assets. The SPV, which pays the sukuk holders on a regular basis in accordance with the terms of the issuance, receives rent or other payments from the segregated assets. When the sukuk matures, the SPV returns to the sukuk

holders the cash it received from the issuance of the sukuk. Sukuk transactions may have different legal treatment depending on whether they are real sales or not. Transferring property from the original bank to an SPV is part of an asset-backed sukuk transaction. As a result, the legal ownership of the assets is transferred to the SPV, and the general creditors of the originator bank have no claim to them. Sukuk holders will have recourse only against the SPV, not the original bank, should the transferred assets are not as described and warranted by the bank. When the asset-based strategy is adopted, the originating bank retains legal ownership of the SPV's assets and the assets that support the sukuk issue, hence there is no genuine sale of the bank's assets. For any remaining deficit after the SPV's assets have been realized, the bank may have a residual unsecured claim against the holders of sukuk if the SPV defaults under an asset-based model. According to (Awadzi 2015: 13-15).

1.8.3. Fund Allocation Methods

The methods of allocating financing in Islamic banks vary, which are derived from the provisions of Islamic Sharia and upon which the Islamic economic system is built. The most important of them can be addressed in the following paragraphs.

1.8.3.1. *Murabaha*

More than 70% of Islamic banks' assets are financed through al-Murabaha, making it one of the most often used funding techniques (Al-Gazzar, 2014: 14). It's common for Islamic banks to raise money through murabaha transactions. According to Murabaha, an Islamic bank is one that buys goods on behalf of a customer and then resells them to the customer at a predetermined price. Once the products are purchased, the customer promises the bank that he would repurchase them from the bank at a new price, which will include the original cost of the products plus an agreed upon profit. Both the Islamic bank and the consumer who asked the Islamic bank to purchase the item should have signed contracts for Murabaha in order for it to be legal under Sharia law. According to the original contract, the bank must have the commodities in its possession prior to the establishment of the second contract in order to fulfill its obligations (Salh, 2017: 55).

It is possible for Islamic banks to buy any tangible asset at a client's request and then sell it at a pre-determined profit under the Al Murabahah contract. Despite the fact that banks'

mark-ups may appear to be merely another form of interest to traditional bankers, under Shariah this type of transaction is considered profit from obtaining an asset for resale, therefore the asset is sold for money rather than just exchanged for money. As long as they're being held by a bank, there is a risk that the price may fall. Because the mark-up cannot be changed after an agreement has been signed, consumers who want to use Murabahah must first negotiate terms with their bank. In most cases, the margin amount is determined by the inter-bank offered interest rate (Riaz, 2014: 37).

In addition, murabaha refers to a method of selling and buying between two parties without the involvement of financial intermediaries—the seller and the buyer. One party is the supplier, another is the seller, and yet another party is a buyer who has requested certain products through a Murabaha transaction. The buyer wants the seller to buy a specific commodity and then resell it to the buyer for the original price plus a predefined profit. For Islamic banks, murabaha is one of the most popular modes of financing because the profit is guaranteed (Salh, 2017: 54).

Mark-up sales or asset-backed loans can be compared to murabaha structures. Banks purchase an asset (selected by the client) and then sell it (and deliver it) to investors on a deferred-payment basis through the murabaha financial product. Consequently, customers must pay back the asset price plus the markup, but not the interest. Unless the consumer knowingly defaults, the bank will not be fined for a default on a Murabaha loan once the agreement has been signed. As a result of this deal, it will be easier for people to acquire assets. Interbank liquidity management and foreign commercial transactions can both be facilitated by the use of murabaha (Al-Balooshi, 2019: 11).

The steps of the Mudharaba structure are depicted in the Figure 1.4., which is as follows:

1. Contact is made with a Bank Vendor and information is gathered, such as the base price and the mark-up; by the customer.
2. The bank sells the commodity to the customer at a profit, and the latter now owns and controls it.
3. The additional payment was paid by the customer in one lump sum or over a defined length of time in installments (s).

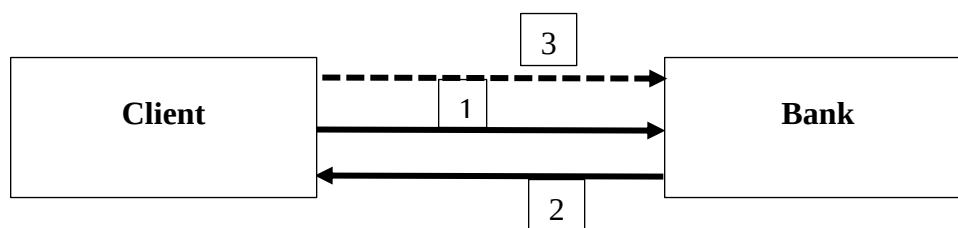


Figure 1.4. Simple Murabaha Contract Structure

Dotted line indicates flow of funds.

Reference: Obaidullah, 2005: 69

1.8.3.2. Mudaraba

In a mudaraba-based trustee partnership, the bank lends money to a particular firm that the consumer has identified. It is the bank, known as the rabb al-mal, that holds the funds, while the client, known as the mudarib, is in charge of the business's administration and provides the professional, administrative, and technical qualities for launching and running the commercial venture or project. A predetermined ratio is used to distribute profits. It is the bank's responsibility to cover any losses that may occur. There are two kinds of Mudaraba: restricted and uncontrolled. Restrictive mudaraba investments can be made in a specific industry by a bank or investor (mudaraba al-muqayyada). You can invest in any kind of business you choose if you have unlimited mudaraba (mudaraba al-mutlaq). (Obaidullah, 2015: 57-58).

Entrepreneurs and investors form a joint venture in this type of financing arrangement (or bank). The investor provides all of the necessary funds, while the entrepreneur provides their expertise, time, and leadership. Essentially, it's a silent partnership. The profit-sharing rate is agreed upon at the time of contracting. Project or asset-based profit is made only from the functioning of that project or asset. In the worst-case scenario, unless the entrepreneur's bad behavior can be proven, the investor loses everything. On the assets and liabilities sides of Islamic banking's balance sheets, such an arrangement can be found (Al-Balooshi, 2019: 10).

A profit-sharing arrangement in which one partner gives funds and the other performs work is known as a mudarabah. The payment of a certain sum of money to a person who utilizes it for business and makes money from it is known as mudarabah in the Islamic context

(Usmani, 2002). An Islamic bank sells a specific asset to a customer at an agreed-upon profit margin over its initial cost under this type of sales contract. Real property is required for the contract to be in accordance with Islamic law, according to Kettel (2011). When a person enters into an al-Mudarabah contract, they give another person a predetermined amount of money with the goal of trading it for an agreed percentage of profit. In a Mudarabah contract investment project, the financier gives the Mudarib (working partner) permission to deploy their cash. An equity-based style of financing in which the bank lends money to a specific business is known as Mudarabah. Mudarabah's core ideas dictate that although if the bank owns the capital, it is prohibited from interfering with management and is solely interested in making a profit (Riaz, 2014:32).

Using his own money is allowed in restricted Mudarabah, but only under certain conditions. Unrestricted Mudarabah, on the other hand, does not place restrictions on the entrepreneur. There are a number of considerations here, including what the entrepreneur is selling, where it will be sold, who it will be sold to, and when it will be sold. There are no constraints on commodities, the location where they can be traded or the person with whom an entrepreneur can trade in an unrestricted Mudarabah setting (Elgadi, 2016: 27).

(Al-Balooshi. 2019: 15) illustrates the Mudharaba structure's steps as shown in the figure 1.5:

1. The account holder and the bank engage in a discussion about the terms of the Mudharaba; the depositor transfers money to the bank.
2. The bank is in charge of its operations and allocates capital to various assets and projects.
3. The firm generates a profit, which can be either positive or negative;
4. The profit (if any), if any, is distributed between depositors and banks in accordance with a predetermined ratio.

5. If the profit is negative, the depositor absorbs it, diminishing the value of both of the assets created by its investments and the value of the deposit in the process.

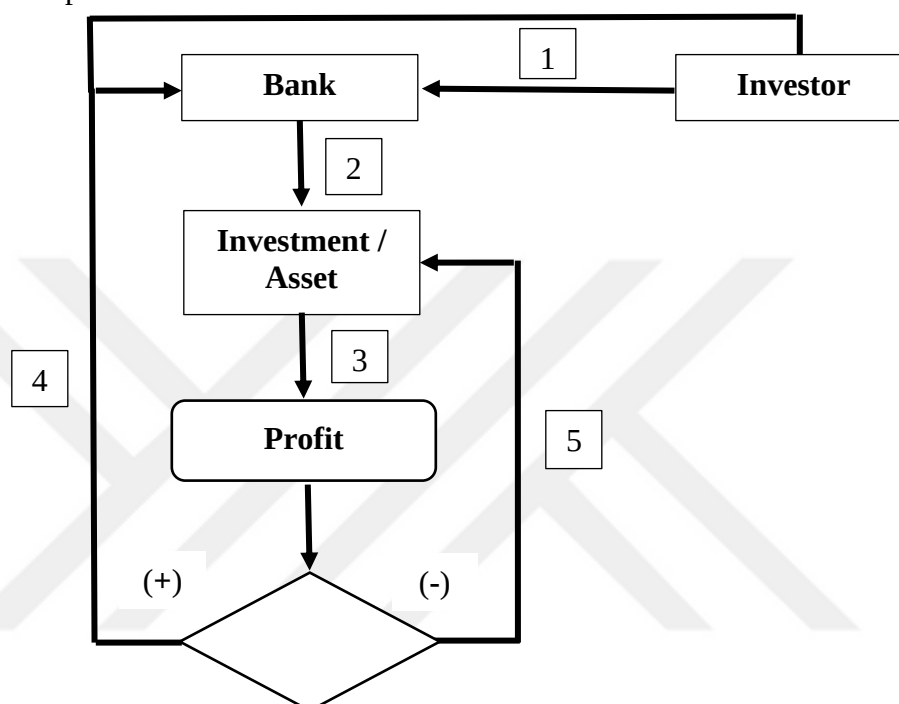


Figure 1.5. Simple Mudharabah Contract Structure

Reference: Al-Balooshi. 2019: 15

1.8.3.3. Musharaka

Because the bank is not the only source of funding, Al Musharaka uses the term "equity participation agreement." Consequently, as mentioned by Geelani (2005), the investment will be funded by more than two partners, and profits and losses will be distributed in accordance with the respective capital contributions stipulated in the contract provisions. The author of Al-Gazzar (2014: 15)

Al-Musharakah is a contract in the Islamic financial system between two parties who have pledged to offer finance and entrepreneurship to a partnership. An agreement like this calls for a predetermined split of the project's equity investment to be provided by both the bank and the investor. Mudarabah's appearance is identical to Musharakah's, but the financier is given a say in management. Unlike Mudarabah contracts, which only expose the funding

party, Musharakah contracts contain loss-sharing. That's why Islamic banking around the world is embracing Musharakah, a method of long-term financing that uses profit and loss principles. According to others, the introduction of Musharakah in current Islamic finance was a deliberate effort to integrate profit-sharing into the banking system. Poverty can be reduced by Musharakah, which helps to remove underutilized economic resources. In Musharakah financing, there are two types of deals: "diminishing" and "continuous" Musharakah. When a bank agrees to gradually transfer ownership to a partner in exchange for payments, it's called Musharakah. With each payment made by the client, the bank's share of ownership decreases; nevertheless, the partner's share of ownership increases until it reaches 100%. Musharakah is a business model in which all partners' shares remain constant during its lifecycle. When Musharakah is used for commercial operations, banks and other financial institutions are viewed as having less financial liability (Riaz, 2014: 34-35).

A joint venture or project financing structure resembles Musharakah, in contrast to Mudharabah, which is known as "participation." Investment and Islamic bank management abilities are mutually beneficial. Everyone would agree on the company's strategy and the necessary funding. The agreed-upon profit-sharing percentage is also spelled out in the contract. All partners will receive a percentage of the project's revenues if it is successful, according to the agreed-upon formula. Nevertheless, in the event of a loss, each party would be liable for the losses they contributed according to the amount of money they had contributed. As stated by Hussain et al. in 2015, it is the most authentic mode of financing. Figure 1.6. depicts an example of a Musharaka transaction and the following steps in the Musharaka structure ((Al – Balooshi, 2019: 10):

1. The client and the bank meet to discuss the company plan and to determine how much money will be invested in the enterprise.
2. The client and the bank collaborate to form the firm and manage its operations, delegating responsibilities in accordance with pre-determined criteria; the business earns positive or negative profits as a result of their efforts:
3. If the profits are positive, they are distributed in accordance with a predetermined formula.

4. If the profit is negative, it is dispersed in proportion to the capital inputs, resulting in a decrease in the asset value although their individual shares in the asset remain unchanged.

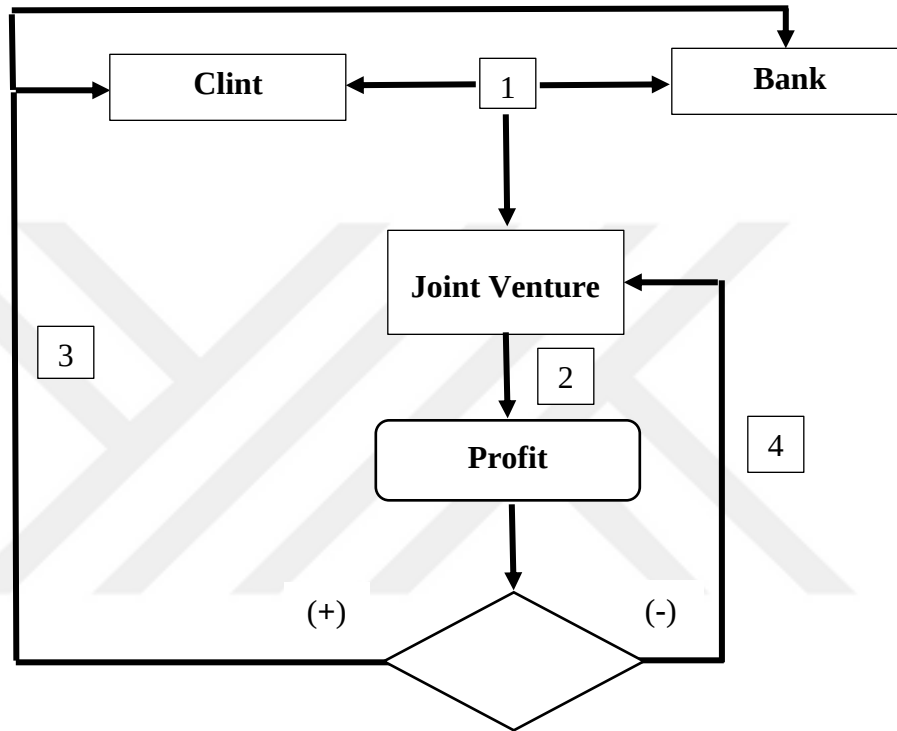


Figure 1.6. Simple Musharaka Contract Structure
Reference: Al – Balooshi, 2020: 16

1.8.3.4. Ijara

Ijara is a contract between an Islamic bank and a customer in which the bank purchases an asset on their behalf and leases it to the customer for a specified period of time at a predetermined rental rate. The bank must assume all of the risks and responsibilities associated with asset ownership, including asset upkeep. Al – Gazzar (2014) defines Ijarah wa iqtina as a lease provision that allows the lessee to purchase the asset at the end of the lease period. "Ijara" is an Islamic way of hiring an asset or property that can be used to hire a person's services as well as to hire an asset or property. There are two types of ijara (leasing): 'Ijara al-ashy' and 'Ijara al-askkhas,' each of which has its own set of rules. Ijara al-ashya is the term used to describe the hiring of a real estate asset. When a bank purchases an

asset, it subsequently leases it back to the client after a period of time and other terms have been agreed upon by both parties (Obaidullah, 2005: 62).

The three major pillars of this contract are the contracting parties, the contract offer and acceptance, and the contract terms and conditions. After all payments have been received and made, ownership is passed to the client unless the contract is cancelled by the client before it ends. Shariah law permits for the charging of rental fees on real estate as long as the bank assumes the risk of asset ownership; the leaser is liable for insurance, damages, repairs, and depreciation, while the bank bears the risk of asset ownership. The other form of Ijara, al-askkhas, is used to hire labor services, with the exception of those that are prohibited by Shariah, such as magicians and singers, which are not included here. Chong and Liu (2007), on the other hand, argue that the Ijara financing activities of Islamic banks are equivalent to those of interest-bearing banks, despite the fact that Islamic banks do not pay interest. According to the authors, Western financial contracts are similar to Ijara in that the client receives ownership of the asset at the end of the lease, which in principle violates Shariah law's ownership restrictions. Zaher et al. (2001) argue that Western financial contracts are similar to Ijara in that the client receives ownership of the asset at the end of the lease (Riaz, 2014: 38)

Using the most basic form of ijara, a bank assumes ownership of a piece of property and leases it to a customer for a defined amount of time at a certain fee. The bank's identification number is the same as the number assigned to the asset's vendor. Structure one figure 1.7. is the most ideal sort of ijara from an Islamic perspective, since it precisely conforms to the characteristics of the classical ijara. This structure, on the other hand, is the least common and most popular, with the steps of this structure being as follows (Obiadullah, 2015: 80):

1. The Bank-Vendor customizes the delivery, identifies the asset, and collects necessary information, such as the rental rate.
2. In step two, the bank leases an asset to the customer, allowing the customer to assume control of the asset and use it for a specific purpose.
3. The client makes predetermined rental payments over a specified time period in the future (s).

4. The asset is returned to the financial institution.

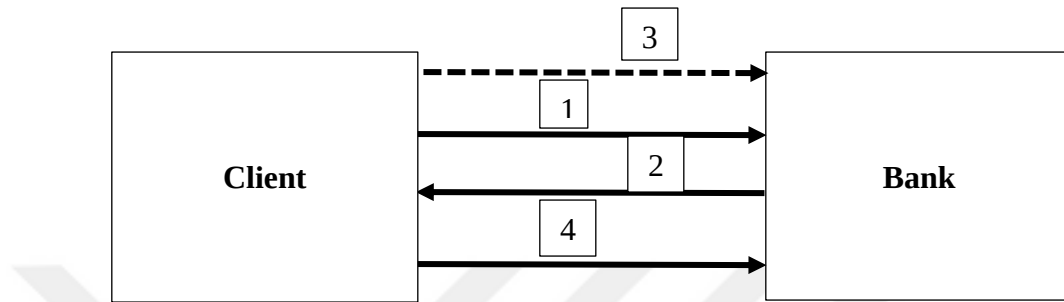


Figure 1.7. Simple Ijara Contract Structure 1 - Dotted line indicates flow of funds

Reference: Obaidullah, 2005: 80

When it comes to actual assets, a typical Islamic bank does not deal in a wide variety of them. Structure two is depicted in Figure 1.8. and represents the involvement of a vendor in the process. The layout in this building is divided into two distinct phases. Phase one of the transaction involves the bank purchasing the asset requested by its customer from the seller. At the end of phase two, the bank acts as the asset's owner and leases the asset to its customer for a certain period of time at a predetermined rental rate, with the steps of this structure being as follows: (Obiadullah, 2015: 81)

The following steps are taken:

1. The customer or client locates and contacts a Vendor or Supplier of the asset he or she requires, gathering all relevant information;
2. The client contacts a Bank for Ijara of the asset, promising to lease the asset from the Bank upon purchase;
3. The bank pays the price to the Vendor;
4. The vendor transfers ownership of the asset to Bank;
5. The bank leases the asset, transferring possession and the right of specified use to the client;
6. The client pays ijar (s).
7. In this step, the asset is returned to the financial institution.

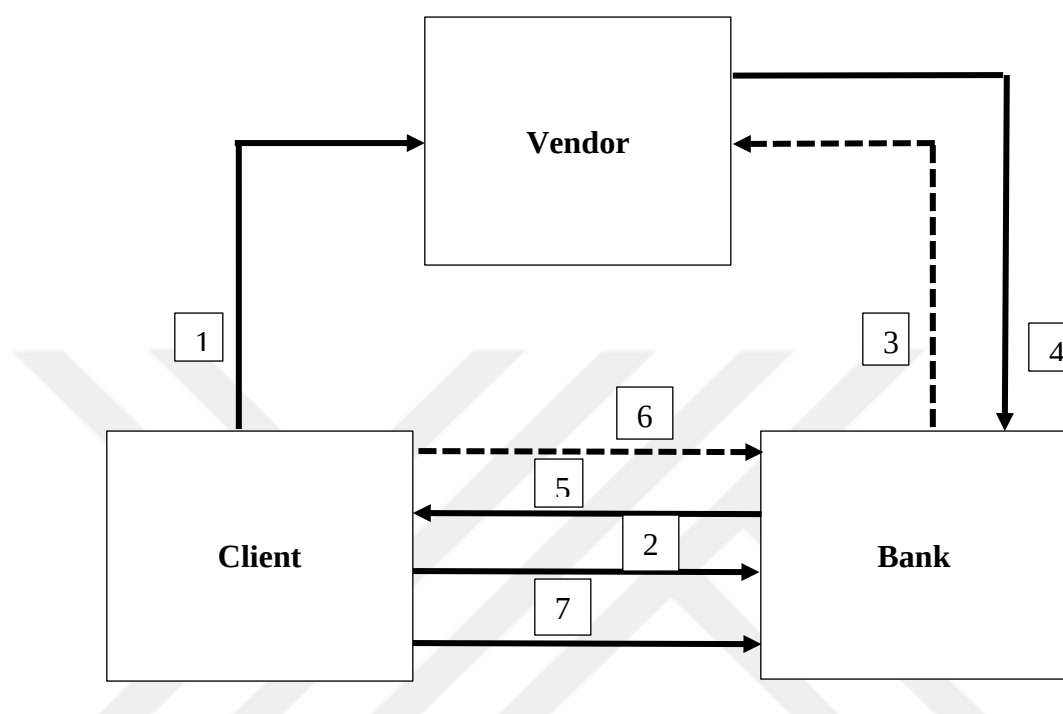


Figure 1.8. Simple Ijara Contract Structure 2 - Dotted line indicates flow of funds

Reference: Obaidullah, 2005: 8

1.8.3.5. Teverruk

Muslim experts contend that AL - Tawarruq (or Al- Teverruk) is the most widely used product in Islamic banking and finance, particularly in the countries of the Gulf Cooperation Council (GCC). Tawarruq is based on a traditional perspective of jurists who aim to aid in the advancement of Islamic economics, banking, and finance by replacing an archaic conception that is clearly prohibited in Islam with a modern concept that is clearly permitted. To replace haram transactions, which generate serious economic issues in society, Islam has always come up with an equivalent commodity and contract to be used in the Islamic tradition. To give an example, Allah forbade riba but permitted selling so long as the counterparty complied with the terms and conditions of the transaction.

Al - Tawarruq are a method of procuring commodities on credit by a mutawarrriq (cash seeker) and then reselling them for a lower price on cash to someone other than the original seller. Al - Tawarruq are a type of credit arrangement (3rd party). Tawarruq is a type of sale contract in which a buyer purchases an asset from a seller on the condition of future

payment and then sells the asset to a third party for cash at a price that is lower than the delayed price. When a buyer purchases an asset on deferred terms, the buyer's goal is not to profit from the asset, but rather to make it simpler for him to obtain liquidity (*waraqh maliah*) (Dusuki, 2008:34). This type of transaction is referred to as *tawarruq*.

The term *tawarruq* can be broken down into two distinct categories. These are divided into two categories: *Al-Tawarruq al-Fardi*, which is more classical, and *Al-Tawarruq al-Fardi*, which is more ordered (*Al-Tawarruq al-Munazzam*). Traditional definition of *tawarruq* is the purchase of an item owned by the seller in exchange for a delayed payment, after which the buyer can then sell the item to a third party in order to gain additional income (*al-wariq*). Current *tawarruq* is defined as a transaction that takes place in which the buyer pays for goods at a later date and the seller receives money in the meantime. It can take place anywhere in the world. Additionally, he (*mustauriq*) will encourage the financier to restructure the sale deal, typically at a lower spot price, either in his or her personal capacity or through an agent appointed by *mustauriq* or pursuant to a special arrangement with *mustauriq*. The following are the steps of classic *tawarruq*, as depicted in the figure 1.9. (AL-Jamose et al., 2018: 186):

1. In the commodity market, the Islamic bank purchases the good or service in cash from Trader A;
2. The specified commodity's ownership is subsequently transferred to the Islamic bank;
3. The Islamic bank then sells the commodity to the Contractor (e.g., other Islamic financial institutions or a client) for a deferred price, which is the listed price plus a profit margin;
4. After that, the commodity's possession is transferred to the Counterparty; and
5. The transaction is completed.
6. Then, ownership of the specified commodity will be passed to Dealer B.

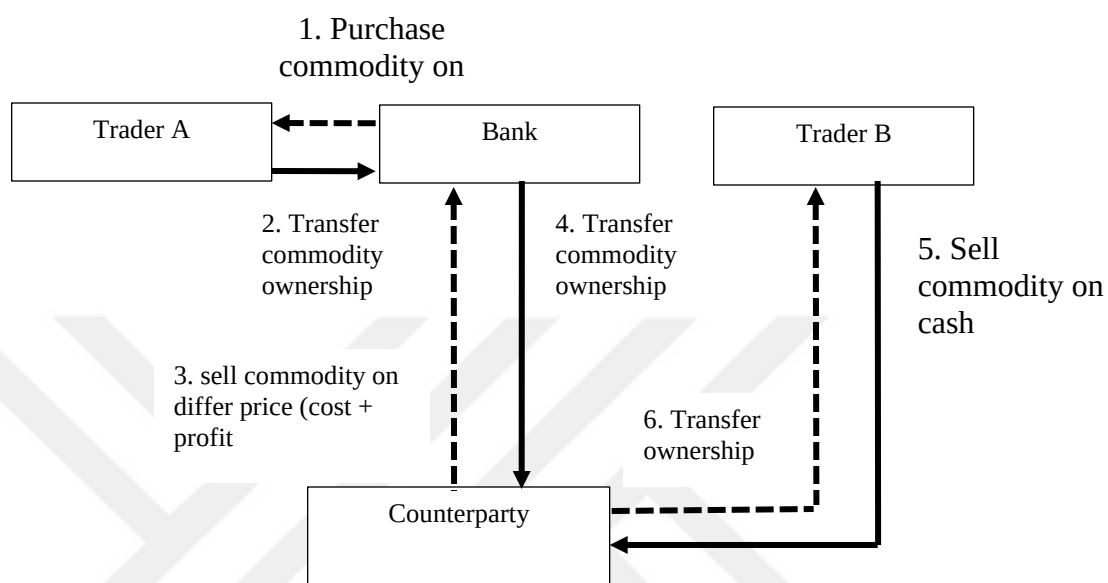


Figure 1.9. The steps of classic tawarruq

Reference: AL-Jamose et.al., 2018: 186

In most cases, the commodity murabahah, which is the most extensively used in Islamic banks' liquidity management, is the topic of organized tawarruq. This is owing to the possibility that an Islamic bank may get a predetermined return from the sale of this particular commodity. Also shown is how organized tawarruq operates in the context of commodities Murabahah, which occurs when an Islamic bank lends money to a counterparty in exchange for a profit on the loan. The following are the steps involved in describing organized tawarruq (AL-Jamose et al., 2018: 187), in order:

1. Trader A receives warrants from an Islamic bank, which pays him in cash on the spot.
2. After the warrants are issued, the Islamic bank will sell them to the Counterparty. The Counterparty accepts the Islamic bank's offer to purchase warrants on a deferred payment basis with a defined markup and repayment date on a deferred payment basis.

3. In Step, the Counterparty engages the services of an Islamic bank to act as its agent in the selling of warrants to investors. The Islamic bank is now acting as an agent, selling the warrants on the spot market to another Trader B who is a member of the syndicate. Also possible is that the Counterparty will choose to sell the warrants on the open market.
4. The Counterparty receives the funds, and the warrants are transferred to the transaction's final recipient. No matter if a Counterparty asks an Islamic bank to sell warrants on its behalf or organizes the sale of warrants on its own, the Counterparty will in most cases be paid the warrants' spot counter value, regardless of how it is done.
5. The Islamic bank will receive a deferred payment from the Counterparty in the fifth step. This payment will be made at a predetermined point in the future, and it will include the original purchase price plus a markup.

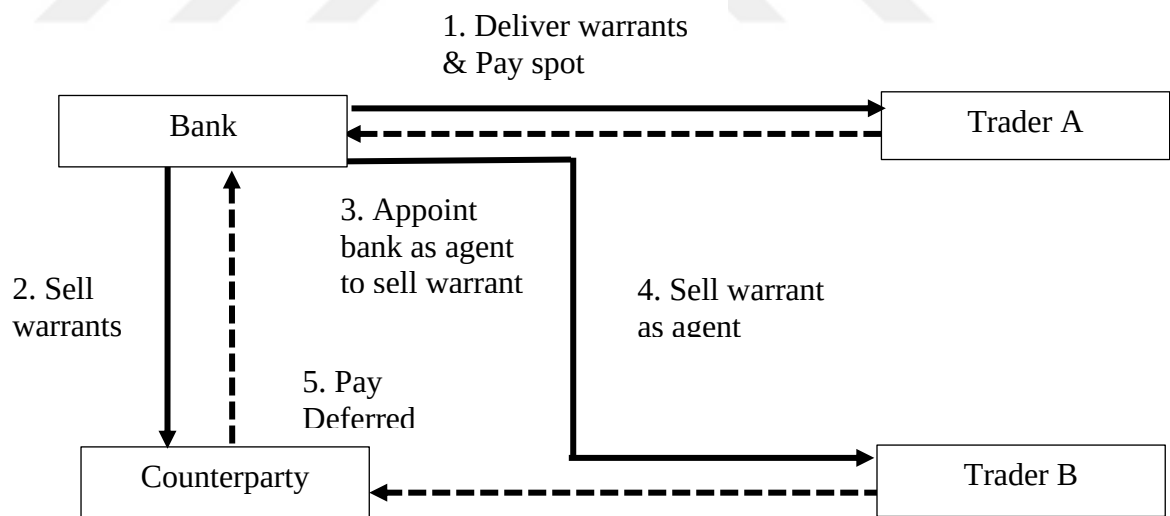


Figure 1.9. The steps of Organized Tawarruq
 Reference: AL-Jamose et.al., 2018: 187

1.8.3.6. Salam

Salam is a method through which an Islamic bank agrees to pay in advance for particular assets, in exchange for which the seller commits to give them at a later time, at a fixed price, quality, and quantity. Secondary market products, such as agricultural or mineral

products, can be sold via this method (AL- Gazzar, 2014: 14-15).

Shariah-compliant Salam contracts allow customers to pay now for things that will arrive at a future date. Salam means 'progress' in Arabic. By allowing banks and farmers to enter into contracts with one another to acquire money at an opportune time rather than taking out usurious loans, Salam helps alleviate agricultural sector poverty. It tries to meet the financial needs of farmers and dealers on the import and export markets, who need money to grow commodities to the point of sale. For a salam contract, it is necessary to agree on the price and make full payment before signing the contract. If the payment is not made in full, the principal purpose of supporting the buyer's financial obligations will be frustrated. The inclusion of items whose quality and quantity may be pre-specified is recommended to avoid delivery issues. There must be a "valid" profit because the Salam contract price is less than the spot rate. (Riaz, 2014: 39-40).

Salam contracts must be used with extreme caution by Islamic institutions since there is a significant possibility of the client defaulting after receiving payment in advance of the contract being signed. Obtaining commodities at a lower price than expected or of lower quality than agreed upon puts banks at risk, as does the price and quality of the commodities themselves. Finally, if the things are not delivered on time, a lawsuit may be filed against them (Mansuri, 2006: 27).

1.8.3.7. *Istisnaa*

Islamic banks frequently use the Shariah-compliant financing method known as istisnaa to create a specific product for their customers. There are a variety of uses for it, including construction of homes and other buildings; the construction of plants; the construction of roads; the construction of ships; and the production of machinery and equipment. They employ their own materials to create their products, and all parties agree on a price. Commodity parameters must be adequately defined in terms of price, quality and quantity; work or performance is required; and delivery time is not specified (Mansuri, 2006: 28).

It is possible to use Istisnaa to fund manufactured items, building, and infrastructure projects through a commissioned production and agreement approach. One party agrees to

create a specific commodity at a fixed price and deliver it at a later date in this contract. As a contract for the sale of an item, Istisna specifies that the item will be created and delivered to the buyer at a predetermined day and time. Long-term goals are typically funded by Istisna. As a service provider (contractor), the bank represents a firm that promises to manufacture or create a specific asset for the customer at a predetermined price, according to a predetermined description of the shown product, and within a predetermined time limit. In the future, the customer will pay the agreed-upon purchase price. There are typically two contracts in an istikharah transaction: the first reflects the customer's agreement to buy an asset from an Islamic bank once it has been completed, and that second represents the customer's agreement to sell an asset to an Islamic bank once it has been finished. Bank and service provider enter into a second contract for a product manufactured by a separate company. New specified prices are established in this contract, which allow the bank to make a reasonable profit (Elgadi, 2016: 34). Islamic banks use five main financing models, as shown in the Table 1.8.

Table 1.8. The Main Islamic Financing Models

Fund Raising Methods	Description	Ownership	Profit and Loss Sharing
Mudarabah	- Equity-based financin - Not obliged to pay back the entire financing	- Financer does not have a voice in management. - Ownership assets remain with the investor at all times	- The profit is shared in pre-agreed ratios, and the Islamic bank suffers losses - Generates positive or negative profits. - Only financer suffers loss - Complete uncertainty
Musharakah	- Equity-based financing - Not obliged to pay back	- The financer is given right of voice in management	- Every partner bears loss according to ratio of their investment
Murabahah	- Combination of trading and debt - Obligated to pay back the entire financing	- Full control of the use of finance.	- Financer suffers to the full extent of capital - Only for a short period; the goods purchased are taken over by finance user - Certainty for a short period of contract
Ijara	- Lease-based financing - Only rent is paid	- Full control of the use of the finance. - Until the asset is disposed of.	- Non-profit and loss sharing mode. - Financer suffers to the full extent of capital as well as of the opportunity cost of capital
Salam	- Combination of trading and debt. - Obligated to pay back the entire financing	- Full control of the use of the finance	- Financer suffers to the full extent of capital

Reference: Made by researcher

1.9. THE FUTURE OF ISLAMIC BANKS

Banks have the largest stake in the Islamic financial industry (more than two-thirds of the industry's size is 73 percent), ((and they are the industry leader with distinction, and are credited with providing the actual alternative to traditional banking, which is primarily based on loan with interest. The Islamic Bank, like any other financial institution, is a financial institution. Its principal function is to accept all types of deposits; however, it differs in how these funds are used; while traditional banks use them largely in the form of loans (with interest), Islamic banks employ them in various forms of Islamic financing (Murabahat, Tawarruq). (Shares, rents, and so forth.) Both types additionally provide a wide range of financial and banking services (such as currency exchange, remittances, guarantees, etc.) Islamic banks' market share (as a proportion of total domestic banking assets) has increased in various countries, and Islamic banks are categorised as It has systemic relevance in 12 countries where it has at least a 15% market share.

The volume of Islamic banking (as a percentage of the overall banking sector) is steadily expanding, with the Arab Gulf countries providing the most in comparison to other locations. At the end of 2019, Islamic banks had a worldwide rate of 9.44 percent, followed by the Middle East (which includes other Arab nations outside the Gulf Cooperation Council countries, as well as Turkey and Iran), which had a rate of 4.34 percent, and Asian countries, which had a rate of 9.16 percent. 2018 IFSB.(Guendouz, 2021:9)

The Islamic finance industry has undergone substantial development over the previous four decades, and it now plays an essential role in the global financial sector, according to experts. The advent of Islamic finance, on the other hand, began with the emergence of the petrodollar, which, since the 1970s, has had an effect on the financial system's structure and ideology. The Gulf Cooperation Council (GCC) countries have played a significant role in the adoption and growth of Islamic financing in the global financial system because of their substantial oil earnings. According to Al-Gazzar (2014), despite the expansion and prosperity that Islamic banks have experienced around the world, they are currently confronted with a slew of obstacles, the most notable of which are as follows (Al-Gazzar, 2014: 16-19):

1. Standardized regulatory systems are lacking. Because Islamic banking is so new,

the legal and regulatory structures that govern it are still very amorphous and non-standardized in many respects. Thus, they are more likely to use a wide range of accounting and other practices that are not widely accepted in the sector. IAS, AAOIFI standards, and accounting standards that are common in their own markets are followed by some, while others follow international accounting standards (such as the International Accounting Standards Board (IASB) (IAS). This problem stems from the fact that Islamic banks have different accounting standards and transparency requirements, which creates ambiguity. Nonetheless, the AAOIFI and the Islamic Financial Services Board (IFSB) have been working jointly since 2007 on the development of standard accounting and auditing standards for Islamic banks. In total, the AAOIFI has established more than 63 accounting standards for the guidance and acceptance of its 130 member institutions from 30 different countries.

2. Islamic banks have a poor track record in terms of research and development as well as innovation. As a result, they have come under increasing scrutiny in recent years for their failure to provide authentically Islamic and productive products that differ significantly from conventional banking practices. Returns on Islamic banks' goods are estimated based on traditional assumptions about profitability and profitability assumptions. As part of their analysis of the profitability of their Murabaha and other assets, they use market interest rates such as the London Inter-Bank Offered Rate (LIBOR), discounting tables, and time value of money approaches, in addition to market interest rates. Islamic banks should take the issue of delivering a broad range of truly creative, innovative, and competitive commodities seriously, as should other financial institutions.

3. Human resources at Islamic banks are in low supply, and employees lack enough training in Sharia'a-compliant Islamic banking concepts. Many experts in the Shariah field are in short supply in the Islamic banking industry. Only a tiny group of professionals serves on the Shariah boards of Islamic banks around the world, which is critical. Scholars of Sharia'a at small Islamic banks, on the other hand, have limited understanding of the current state of the financial markets. In any case, it is advised that Islamic banks establish a strong research and training foundation in order to build a corps of Sharia'a professionals who are both ethically and professionally honest. As part of this process, they should form a central Sharia'a board as well as an external audit committee to verify that their adherence to Sharia'a

principles is rigorously evaluated and monitored.

4. In addition, Islamic banks face considerable challenges in improving their risk management strategies and corporate governance as a result of their adherence to Sharia'a regulations. They are currently exposed to a wide range of hazards, including those that CBs face as well as those that are particular to IBs in the current environment. As a result of the evolution of the Islamic banking model into pure Islamic modes and instruments, the assets and liability structures of Islamic banks have unique risk characteristics to them. While demand deposits are held in the form of qard hasan, savings and investment deposits are held in profit sharing investment accounts (interest-free loans that can be returned in full at any time). Banks use a variety of asset-side financing techniques, such as PLS, Murabaha, Bai-Mujjal, Istisnaa, Salam and Ijara, and other variants of Islamic financing (Musharaka and Mudaraba). These asset-side products, which reward depositors in accordance with the profit-sharing philosophy, are only available through Islamic financial institutions. " Due to this, Islamic banking, which is based on the PLS idea, cannot promise any fixed return on deposits. For this reason, the initial investment may not be fully protected in some situations. Therefore, in addition to the ordinary risks that traditional banks face, IBs incur additional risks as a result of the unique asset classes and liability arrangements that they have established for themselves. Consequently, Islamic banking will come to a grinding halt in the absence of a functioning capital market in which to operate. Additionally, there are a number of more fundamental difficulties that make Islamic banking riskier than ordinary banking, in addition to the specific special risks that Islamic banks face. As a starting point, Islamic banks have fewer risk-hedging instruments and techniques than conventional banks because they are prohibited from using derivatives such as options, futures, and forwards, which are commonly used by conventional banks to effectively hedge risks, because these tools are based on interest and speculation, with which Islamic banks are not able to comply under Sharia'a. Since a result of the acute absence of long-term Sharia'a-compliant investment tools and outlets, Islamic banks (IBs) are afflicted by a chronic problem of excess liquidity, as they hold around 40% more cash and other liquid assets than conventional banks (CBs). There are three main reasons why people become clients and interact with banks when it comes to Islamic banking: religious (to support Islamic project finance), profit-making (to maximize

earnings), and transactional (to complete transactions) (to take money whenever needed). In spite of this, these situations exacerbate liquidity issues, which are particularly prevalent among some conventional Islamic banking depositors (considering level of interest, expecting regular and competitive deposit returns). Because of this, Islamic banks must take appropriate steps to increase public awareness of Islamic banking principles and practices, as well as realign their portfolio management to better fit with the bank's liquidity and financing management. Based on the discussion that has taken place thus far, Islamic banking is certainly not a tiny or ephemeral phenomenon. It appears that Islamic banks will be around for a long time to come, and there are signs that they will continue to develop and expand. Islamic banks put forward some innovative ideas that have the potential to widen the scope of the present financial system. The importance of addressing all of their inherent issues and developing realistic and feasible solutions to overcome any obstacles that IBs may encounter as a result of the rapidly changing regulatory and operational environment brought about by globalization and increased competition is therefore critical.

So, what does the future of Islamic banking look like, and what steps must be taken to reach that vision? (Bassa, 2021: 1):

First and foremost, authorities around the world – in Africa, Asia, and the United Kingdom – are becoming increasingly open to the concept, with a variety of banking licenses being awarded to Islamic fintech companies. However, it is necessary to gain a deeper understanding of the standards of a Sharia-compliant financial institution. This will entail the establishment of a Sharia board comprised of Islamic academics.

Second, conventional banking regulations must be adhered to, each of which has its own set of laws and regulations to follow. As a result, in order to be Shariah-compliant, the firm must be operationally resilient and require extensive knowledge and expertise.

Third, Global movements such as open banking, for example, bring an increased level of openness and justice to the financial system. Because of this, there is greater variety in the offerings, particularly among younger generations who want to see their money benefiting environmental, socioeconomic, and governance (ESG) causes in their respective areas.

Fourth, Sukuk offers, which are financial products whose terms and structures

comply with Sharia and are designed to generate returns comparable to those of conventional fixed-income instruments such as bonds, will be a major focus for Islamic banking in the fourth quarter of this year.

Finally, Islamic finance is currently valued at approximately \$2.4 trillion and is predicted to increase at a steady rate of 10-12 percent throughout the years 2021-2022. It has historically been a poorly supported consumer sector by incumbent banks, presenting an opportunity for new competitors to enter the market.

To summarize, the emergence of Islamic banks over the last few years has stoked interest in the sector's future, but as competition heats up and early warning signs appear, the sector's expansion is slowing. No matter whether the strategy is to concentrate on specialized positioning, compete directly with conventional banks, or combine the two, most Islamic banks will need to improve their overall efficiency across the value chain in order to remain competitive.

CHAPTER 2: FINANCIAL PERFORMANCE EVALUATION

Financial management has gone through several stages since its inception to this day, as it has had great importance in managing the institution through the role it plays, by following the movement of funds and calculating profit and loss ratios resulting from all operations.

Analysis of financial performance is an important topic in the field of financial management, as it is a systematic process of processing the available financial data in order to obtain information that is used in the decision-making process and in the process of evaluation and measurement. Past and present performance in order to identify weaknesses to work on and identify strengths to enhance them. Where it is of paramount importance to the financial planning process of the organization, it is the starting point of the process, which leads to increased interest in it among many of its users because it is the means that ensures that the goal is to determine whether the financial position of the organization is going. Therefore, the following are explained in this chapter.

- Concept Of Financial Performance
- Ratios Used In Determining Financial Performance

2.1. CONCEPT OF FINANCIAL PERFORMANCE

There has been no consensus on a uniform and comprehensive definition of the term performance, due to different opinions of thinkers and economists on its concept. Those who relied on the definition of performance on quantitative aspects and the preference for technical means in analysis, and those who relied on the organizational, social and economical dimensions included in the definition of performance. Also those who use several terms such as efficiency, effectiveness and productivity as synonyms for them, but this is not true, and the meaning of performance for the course is different from it for the economist, and the difference exists even within the organization. Therefore, several definitions of performance must be given in order to find the concept that which study is the best.

It should be noted that the word "perform" is derived from the Latin word "Performare", which means to give a (comprehensive) form to something, after which the English language derived the term "Performare" and gave it the meaning (Boujlal;

Anfal,2018:75).

Definition (Kherakhem,1984:310): The researcher defined performance as performing a work, completing an activity, or carrying out a task, that is, it expresses the way in which the organization can take action in order to reach the set goals, and the researcher relied in his analysis on two criteria Effectiveness and productivity, given that effectiveness is determined at what level the goals are achieved, so the achieved goals are compared with the specific goals, and productivity is compared with the results obtained by means. Used in it, this definition is taken to confuse some concepts such as productivity and efficiency. So the researcher give them the same definition. And Definition of (Bromley and Miller) : The concept of performance, according to these authors, is how the organization uses financial and human resources, and use them efficiently and effectively to make it able to achieve its goals. Performance is the total of an organization's operations and plans; it is significant for accounting reasons and is still a key issue for most businesses (Boujlal; Anfal,2018:75) .

Taouab & Issor (2019:96) supplied a series of definitions to exemplify the notion of organizational performance:

- Performance is a collection of financial and nonfinancial measurements that offer information on the degree to which objectives and results are fulfilled.
- Performance is a fluid process that requires judgment and interpretation.
- Performance may be described by a causal model, which shows how current behaviors influence future results.
- Depending on who is assessing the firm's performance, it may be interpreted differently.
- In order to define the notion of performance, it is vital to understand its fundamental qualities in relation to each area of responsibility.
- It is vital to be able to quantify the findings in order to report a Financial institution performance level.

Siminica (2008) recognizes that a Financial institution is performant when it is both efficient and effective. As a result, performance is determined by two variables: efficiency and efficacy.

According to Colase (2009), the term performance is a catch-all for a variety of ideas including as growth, profitability, return, productivity, efficiency, and competitiveness. as stated by Bartoli and Blatrix (2015), the notion of performance should include aspects such as piloting, assessment, efficiency, effectiveness, and quality. (Taouab & Issor, 2019:96)

2.1.1. Financial Performance

The development of novel measuring frameworks and methodology, In recent years, the development of performance measurement tools such as the balanced scorecard, the performance prism, economic value added, economic profit, activity-based costing, and self-assessment methods has quickened (Lebens and Euske, 2002:34).

Financial performance is one of the indicators used to measure the success of a microfinance institution in terms of financial returns. It is often used by investors as a benchmark for performing the due diligence process and assessing the investment situation; It is also used as a tool by government regulators to assess compliance with regulatory measures and to monitor the overall safety of the financial sector.

The study (Taouab & Issor, 2019:103) discovered that a well-performing financial institution may generate huge, long-term profits while also providing employment opportunities and raising individual income. it will have better production units, and it will provide superior quality items to its clients. This procedure cannot take place unless the outcomes are measured. As a result, performance measurement is critical for good financial institution management. It is an organization's primary source of perceptual and organizational/controlling skills. Measurement is required to analyze and develop the management strategy; to forecast future internal and external events; to monitor status and behavior in connection to its objectives; and to The Performance Pyramid contains four levels of goals that influence both the organization's external effectiveness (on the left side of the pyramid) and its internal effectiveness (on the right side of the pyramid) (right side of the pyramid).

1. The first level of a company's performance pyramid is the formulation of an overall corporate vision, which is then translated into particular business unit goals.

2. Short-term cash flow and profitability objectives, as well as long-term growth and market position aspirations, are set at the second level of the pyramid.
3. On a daily basis, operational measures are included in the third level (customer satisfaction, flexibility and productivity).
4. The last level includes four critical performance indicators (quality, delivery, cycle time and waste) (Taouab & Issor, 2019:103) .

2.1.2. Financial Performance Measurement

The act of engaging in financial activities is referred to as financial performance. Financial performance, in a broader sense, refers to the extent to which financial objectives are or have been met. It is the process of calculating the monetary value of a company's policies and activities. It is used to assess a company's overall financial health over time and may also be used to compare other enterprises in the same industry, industries, or sectors as a whole. All profit-seeking firms want to improve their financial performance. Its absence may really be seen as failure. Profitability, leverage, liquidity, and growth are all prominent indices of financial success. (Yahaya & Lamidi, 2015:1) .

2.1.3. The Concept of Performance Measurement

1- Definition of measurement: It is a set of quantitative information and observations about the subject to be measured, and it is an estimate of objects and levels quantitatively according to a specific framework of the listed criteria, according to the idea. The rule is that everything is measured by a measure, and every measure can be measured

2- Definition of performance measurement: performance measurement is defined as an organized method for evaluating inputs, outputs and production processes in industrial and non-industrial organizations. Objective, clear, easy to use, simplified and agreed upon, then comes the ability to measure for correct judgment and access to truth regarding the various interactions between individuals and groups. Without these conditions things will turn into an impressionistic personal intervention in judging and evaluating matters, like those who use double standards. (Boujlal; Anfal 2018:88).

The researcher sees (Mohammed & Ward, 2006:132), Performance measurement systems provide the basis for developing strategic plans, assessing an organization's

achievement of goals, and rewarding managers, while consensual measurement of performance enhances scholarly investigations and can inform management decisions.

Performance measurement process is an essential stage in performance appraisal; In the event that officials neglect performance measurement processes or rely on a random measurement that will bring them closer to failure, the process of performance measurement has a specific concept that (Boujlal; Anfal 2018:87). Management of financial assets, operational efficiency, bank size, and credit risk management all have a significant impact on bank financial returns (AIKarim&Alam, 2013). ROA, interest margin, and capital sufficiency are all financial return assessment metrics that have a favorable relationship with customer service quality ratings. A supportive policy that strengthens a framework that supports bank financial success is an essential component of development policy (Dassie, 2018:4). Favorable financial performance is not only crucial for the survival of commercial banks; it also helps to enhance economic activity in all sectors of an economy, given the intermediation role that banks play (Fitsum&Asmero, 2016). Although there are other measures to evaluate a bank's financial performance, such as returns on assets, returns on equity, provision for loan losses, rate paid on funds, and profit yield. Various criteria may be used to assess bank financial returns, which are largely determined by the intended goal. (Dassie, 2018:4)

2.1.3.1. Definition of Performance Measurement

Definition of performance measurement: Performance measurement is defined as a structured method for evaluating inputs, outputs and production processes in industrial and non-manufacturing organizations. Usage is simplified and agreed upon, then comes the ability to measure for correct judgment and to arrive at the truth regarding the various interactions between individuals and groups. Without these conditions things will turn into an impressionistic personal intervention in judging and evaluating matters, like those who use double standards.

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judgment and access to the truth regarding the various interactions between individuals and groups. Without these conditions things will turn into an impressionistic personal intervention in judging and evaluating matters, like those who use double standards (Boujlal; Anfal 2018:100)

Financial performance is defined as the measurement of a firm's financial situation over a particular time period in order to determine how effectively a company uses its resources to create money. Return on assets, return on equity, net profit, earnings per share, and other metrics are used to assess a company's financial health.(Shoukat Malik & Nadeem, 2014:11) According to (Irawati et al., 2019: 23)Performance may be defined as the outcome of overall operations and organizational strategy. Accurate performance assessment is critical, and it has become the focus of every organization's attention. There are two groups in the company: one is the owner, and the other is the management (manager). In order to keep the owner and management of a firm separate, management must have a distinct job. Management is obligated to report to shareholders on a regular basis. Management must be transparent about its methods and how it uses the company's assets and resources. The annual financial report provides shareholders with the transparency they need to evaluate the performance of the firm and the board of directors. Profitability, is the proper measure of banking success.

2.1.3.2. *Importance Of Financial Performance*

The success of a bank is crucial for all stakeholders, including depositors, bank management, regulators, and the competitive market (Chokri & Anis, 2018:26). The performance of the bank indicates to investors-depositors whether they should withdraw funds from investments or withdraw cash from the bank. It also contributes to the enhancement of banking services (loan or deposit) while also contributing to the enhancement of bank financingBanks Performance is a wide notion that can be interpreted differently by various academics. It may be described as the link between financial resources and the outcomes of the financial organization's management of these resources, as well as its goals of generating greater profits via the provision of good products and services. Performance, on the other hand, displays the unity's style as well as the financial status of

funds and investments (Qasim et al., 2017:75). that performance is the result of a financial institution's activities Furthermore, according to Jones and George (2010), performance evaluation gives feedback and assistance to a company in the formulation of initiatives that will strengthen the organization. It is also a measure of how successfully the bank can use its assets through the many currently accessible means of income or business generation. Furthermore, performance may be used to compare the services of different banks (Ajlouni & Moh'd, 2011:38). According to .(Qasim et al., 2017:75),while there are discrepancies in the researchers' perspectives, it can be inferred that the measure of financial success consists of revenues, expenses, and profits. A well performing institution is one that earns the maximum value of revenues while incurring the fewest expenditures in order to attain a higher proportion of profits. Measurement of financial performance problems in financial institutions has recently piqued the interest of many scholars, owing to the fact that structures and financial performance measurement are rapidly changing. This demonstrates that there has been a significant interest in measuring performance with evolving institutions and analysis in banks. It is critical to evaluate a bank's performance by monitoring its total financial state, which is required for investors, depositors, regulators, and bank management (Ajlouni & Hmedat, 2011:38). Indeed, the development of the Islamic banking sector has created a necessity to measure financial performance, as the Islamic banking sector asserts its position in the banking arena on a daily basis. depicts the growth of Islamic banking over a ten-year period in contrast to the commercial banking industry over a five-year period.

2.1.4. Factors Affecting Financial Performance

Performance is a measure of an organization's ability to acquire and manage resources in various ways to gain a competitive advantage. The two categories of performance are financial performance and non-financial performance. Financial performance focuses on characteristics that are directly related to financial statements. The company's success is measured in three ways. The first consideration is the company's productivity, or how effectively it converts inputs into outputs. The second aspect is profitability, which is the amount of money a firm earns in comparison to how much it spends. The third dimension is the market premium, or the amount by which a company's market value exceeds its book

value.

According to researchers, investigations on financial performance should contain different criterion analysis. Because of this multidimensional perspective of performance, new models or patterns of connection between corporate performance and its determinants will emerge to illustrate the numerous sets of relationships between dependent and independent variables in the estimated models. The empirical research investigates how financial and non-financial characteristics such as leverage, liquidity, size, age, and managerial skill index affect the financial performance and development of organizations. (Almajali et al., 2012: 268).

Issues that have a significant impact on company success include both micro and macro factors. Micro factors are internal influences, and macro factors are aspects from the external world. Any change in macro variables will have an impact on the company's performance, either favorably or adversely, depending on the macro environment and firm structure. Even the same macroenvironmental change may not have the same effect on two enterprises in the same sector. There might be a variety of explanations for this disparity in business responses to the same macro changes, but all of these causes are tied to the firm's micro characteristics. (Pham, 2018: 1).

2.1.4.1. Internal Factors

They represent the internal factors that arise in the company's internal environment and that affect its financial performance, can summarize the main factors as following (Ishtiaq, 2019: 18-19). The internal factors are generated through an interaction between the various internal elements in the company, they are under the control of the company, and include a set of variables affecting negatively or positively on the financial performance of the company, and the internal factors can be classified into the following (Milhem, 2019: 44-45):

1. Human Resources: Because the company has multiple resources, one of the most important of those resources is the human element. The company's ability to attract qualified human elements who possess the skills and perform better distinguishes itself, and are able to create harmony and cooperation among members of the

group, and provide an effort that allows them to develop and enhance competitiveness. In order to ensure the most efficient performance and the best production and company successively to meet the needs of the human element, realize its needs, know them, and strive to achieve them.

2. **Management:** Management affects all activities in the company, as the first responsibility lies with it as it assumes the process of leadership, coordination, planning and organization for all the tasks at its disposal, its responsibility, which makes the biggest role for it to make the best performance ratios within the company based on it.
3. **Organizing:** As the word organization includes defining responsibilities and then working on distributing them within the company the workers who are specialists, distributing them within their capabilities and special skills and dividing them among themselves, and the organizing element in the company should be characterized by dynamism and flexibility to be compatible with the changes and developments at the present time, and thus the organization affects to some degree the performance of the company.
4. **Work environment:** It is the total of all the factors that surround a person when he or she is doing his or her work tasks. The performance and lack of attainment of the company's goals is attributable in some way to a loss of harmony, adaptability, and order at work, as well as the spread of a negative atmosphere in the work environment, which eventually impacts and undermines the overall performance.
5. **Nature of work:** It refers to the quality of the job that the individual occupies in terms of its importance and the existing position, as well as the level of growth and promotion opportunities available to him, for loyalty, motivation, and love of work are related to a relationship that is directly related to the individual's job and his compatibility with it, and thus is related to the company's financial performance.

2.1.4.2. External Factors

External factors refer to a set of constraints and variables that go beyond the framework of control in the company and are outside its control, and that are outside its

control, and leave an impact on the financial performance. So, the external factors may be as following (Milhem, 2019: 43-44):

1. Economic considerations: Economic variables, in particular, have a substantial influence on the economic establishment. On the other hand, the economic environment is the environment that exports its resources and the environment that determines the future of its goods, and its impacts are reflected in the company's performance in a short period of time. The economic circumstances that surround the firm determine the link between economic considerations and financial performance. These economic circumstances feature both good and bad characteristics, such as strong external demand, worsening pricing, and crises, all of which have an influence on the company's financial success.
2. Social and Cultural Elements: Cultural and social components are true examples of intellectual, artistic, and moral variables that exist in life and society, and such factors are accessible within the framework of the institution. Social variables have two significant aspects: they may be beneficial because they supply vital information for the business function by providing a new product and aiming for a market share, or they can be bad because they provide a threat to the establishment.
3. Political and legal factors: These aspects, represented by interactions with the outside world, laws, and the structure of the state's political system, are plainly visible in situations of security and political stability. International relations, their quality, and the foreign policies followed by the state have a significant impact on the firm's performance, but in the end, these variables give the true advantage of the company in order to enhance and develop its performance.
4. Technological factors: These are the improvements and changes brought about by technology, such as the provision of new means for conveying services and commodities that allow for cheaper prices. The function of technology elements in financial performance is reflected by generating possibilities that benefit the organization for overall financial performance improvement.

2.1.5. Purpose and Benefits of Measuring Financial Performance

The main purposes of the measuring financial performance that can be highlighted in the following:

Follow-up on the implementation of the company's specific goals, which requires following up on the implementation of the specific goals as within the drawn-up plan specified for them, and this is based on the data and information available and in kind on the progress of performance.

1. Measuring the extent of the company's success through its quest to continue its activity in order to achieve its objectives, and the availability of information to various levels and to other parties outside the company.
2. Expose the deficiencies and weaknesses in the bank's activity and conduct a comprehensive analysis of them with a statement of their causes, with the aim of developing the necessary solutions and correcting them, and working to avoid future errors.
3. Providing data and statistical information on the results of performance evaluation in companies to the supervisory bodies, which facilitates their work and enables them to conduct a comprehensive and continuous follow-up of the bank's activity to ensure achieving the best and consistent performance.
4. Providing a database and information on the company's performance, which contribute to the development of policies, studies and future research that work to improve performance patterns and raise its efficiency.

As for the advantages of monitoring financial performance, and since there are several measurements, these advantages will be numerous as well. Return on sales, for example, displays how much a firm makes in proportion to its sales; return on assets determines an organization's capacity to utilise its assets; and return on equity discloses what investors expect in return for their investments. The benefits of financial measurements include their ease of computation and the fact that definitions are agreed upon globally. Traditionally, financial indicators have been used to assess the performance of any institution or corporation. (Almajali et al., 2012: 270). The benefits of measuring financial performance

can be summarized as follows:

1. The examination of financial performance provides a measure of the economic unit's success in continuing to operate in order to meet its goals. Because success is a composite indicator that incorporates efficiency and effectiveness, it is more comprehensive in terms of preserving the economic unit's performance than survival.
2. In addition to the usefulness of information to other parties, the financial performance evaluation system provides information to the various administrative levels within the economic unit for the purposes of planning, control, and decision-making based on scientific and objective facts.
3. It denotes the extent to which the business contributes to the process of economic and social progress by assessing the largest amount of returns at the lowest costs and minimizing waste and waste in time, effort, and money, all of which benefit the economy and society.
4. The financial performance assessment method shows the strategy position in the context of the sectoral environment in which it operates, and then identifies the procedures and instances of change required to reinforce its strategic position.
5. The financial performance appraisal system ensures liquidity availability and measures profitability in light of investment and financing decisions, as well as the associated risks, in addition to the dividend in the context of striving to maximize the current value of the company on the basis that the financial objectives are to increase the value of the current company and maintain liquidity to protect it from risk. Bankruptcy, liquidation, and success.

Based on the aforementioned, the advantages of analyzing financial performance arise from aiding in the comprehension of transactions between financial accounts, as well as supporting in the performance of analysis and comparison procedures, as well as following up on and comprehending the company's economic and financial problems.

2.1.6. Financial Performance Measurement Methods

The key ratios used to analyze a company's performance may be divided into five

categories. (Almajali et al., 2012: 270-271):

1. Liquidity ratios : One of the indicators used to assess a bank's soundness is liquidity. The ability of a bank to pay or fulfill withdrawals made by depositors or savings clients, as well as meet the needs of credit customers, is known as liquidity. The size of current assets, which are assets that may be easily turned into cash and include cash, securities, receivables, and inventory, demonstrates the company's liquidity. Thus, a bank is liquid if it can pay all of its debts, including current accounts, savings, and deposits, when withdrawn by depositors, and if it can also fulfill every loan application from potential debtors that is eligible to be financed (Harjanti & Farhan, 2021: 13600).
2. Activity ratios: These ratios indicate how successfully a firm manages its assets and liabilities, and they assist financial statement readers in evaluating the amounts of output created by assets. Speed and time are critical features of asset and liability management ratios, and it is also advised that those ratios be compared to a standard once they have been calculated. Asset management ratios are important, particularly when compared to standards based on industry norms. In general, all of these asset management ratios may be represented in terms of the number of rotations of a single item via turnover (how rapidly an item generates sales) or the number of days required by a single item to create sales. (Monea, M., 2019: 63).
3. Ratios of leverage: Leverage – or, as it is frequently referred as, gearing – is a fundamental notion in finance. In layman's words, it is the proportion of a company's assets that are funded by borrowings rather than stock. More debt per dollar of equity indicates a greater degree of leverage. Businesses, whether financial or otherwise, spend a significant amount of effort determining their ideal degree of leverage. Debt, since its service expenses are tax-deductible, is often a less expensive form of finance than equity. For a company that starts with exclusively stock financing for its assets, substituting a dollar of equity with a dollar of debt lowers the total cost of funding and improves the return on equity. As a result, there are obvious incentives to use some financial leverage. Leverage

is a natural and necessary component of contemporary financial systems. Banks have a variety of financial incentives to operate with high leverage, and when that leverage is handled efficiently, those advantages pass down to society more broadly. However, there is a limit beyond which leverage becomes perilous — something that became brutally clear during the financial crisis. As a consequence, prudential regulations are required to guarantee that private incentives do not lead to undue leverage. (Ingves, S., 2014: 1-5).

4. Profitability ratios indicate a company's ability to generate a respectable profit and return on investment. The ratios are a measure of a company's financial health and asset management. The two most essential profitability measures are return on assets (ROA) and return on equity (ROE) . Furthermore, the assessment of profitability performance seems to be an essential indicator of financial performance. Numerical performance measurements are useful tools, but they must be used with caution. Managing just by statistics is short-sighted. Executives must have a wider, more qualitative perspective on the review process. Firms are too complex to enable mechanical rules to take the place of creative ideas. The quantitative and qualitative approaches to profitability ratio analysis, as well as the applications and limits of profitability ratios in management practice, will be described in my article. (Lesáková, 2007: 259).
5. Market value to price ratios (also known as valuation to price ratios): These ratios are used to determine the current market value of the shares of a publicly listed corporation. Current and prospective investors use them to determine if a company's shares are expensive or underpriced. Dividend Yield, Book Value Per Share (Return on Investment), Earnings Per Share Market, Value Per Share, and Price-Earnings Ratio are the most prevalent market value ratios. These ratios are not regularly monitored by company managers since these persons are more concerned with operational difficulties. The notable exception is the investor relations officer, who must be able to assess the company's performance through the eyes of investors and hence is far more likely to actively monitor these metrics. (Arkan, 2016: 18-19).

2.2. RATIOS USED IN DETERMINING FINANCIAL PERFORMANCE

Financial indicators are the unit of measurement for the changes that occur in the financial markets and determine the value of the indicator at a certain stage or period, then the value of the indicator is then compared at any point in time and then the market movements are identified, whether they are up or down, and thus it has been determined the general trend of stock price movements.

In case the index rises, the capital market rises, and in case the index declines, the capital market declines. Also, financial indicators are used to evaluate the performance of the market and know the performance trends in it and compare it with other markets as well as the information provided by these indicators that are used to measure the extent to which the markets achieve their goals.

Financial indicators are used to reduce time and effort to reach more accurate results instead of using each ratio separately and interpreting it individually, which leads to overlapping information and results that we may reach.

Financial indicators define as a relationship between budget items to each other or between two items or two numbers in the financial statements with the intention of revealing the weaknesses in the financial position and taking advantage of the strengths and addressing the weaknesses and turning them into strengths.(Al-Ammar & Muhanna,2016:110)

2.2.1. Performance Appraisal Procedures

An effective performance appraisal process relies on several stages

1. Planning stage: budgets and lists are prepared, then tools are used in the performance appraisal process, including the profitability and liquidity indicator.
2. The results comparison stage: After the end of the time period covered by the plan that was developed in the planning stage, the results are compared, as the actual performance is compared with the planned performance.
3. The stage of identifying deviations and determining their interpretations: Knowing the differences and deviations between the actual performance and the expected performance of several units practicing the same activi

4. The stage of dealing with deviations: the existing gaps are addressed and addressed once and for all, and it is the last stage in the performance evaluation (Jamil & Saeed,2006)
5. There are many financial indicators or financial ratios that can be relied upon in the process of analyzing the financial performance of banks in general, but a group of these financial ratios have been selected that have a direct impact on the performance of banks according to the researcher's opinion and are compatible with the work of Islamic banks. Among the indicators chosen by the researcher (Capital adequacy, financial leverage, asset quality, liquidity and profitability)(Al-Ammar & Muhanna,2016:119)

2.2.2. Capital Adequacy

In their study "Islamic Banking: Issues in Prudential Regulations and Supervision," Luca Errico and Mitra Farahbaksh found that regulatory supervision of Islamic banks by competent monetary authorities tends to follow/use conventional norms and methods that apply to regular banks, despite the fact that Islamic banks differ from conventional counterparts in a number of ways. Though they agreed that the minimum capital requirements money should take into account the formation of assets i.e. profit and loss sharing investments as against non-participating investments, they argued that the basic standards of capital to cover risk should be higher in Islamic banks than in conventional banks because the assets of participating in the participation are unsecured.

It may plausibly be argued that the minimum capital adequacy ratio for Islamic banks should be slightly higher than the Basel Committee's minimum threshold of 8%," they noted. They further claimed that Islamic banks require more stricter supervision than conventional banks in terms of asset, management, and liquidity standards. Finally, Errico and Farahbaksh noted that in practice, Islamic finance does not adhere to their idealized puritan two-tier or two-window paradigms. (Kahf, 2005:293)

2.2.2.1. Capital Adequacy Ratio

A- Basel 1

In 1988, the first Basel Accord was signed. The Basel Convention defined bank

capital and specified minimum capital adequacy ratios for each kind of capital as well as total bank capital. Regulators and market participants, on the other hand, have come to rely on Tier 1 capital or equity capital as the fundamental constraint for controlling bank operations. The researcher shows in this study that, despite the several constraints placed by the Basel Accord on the bank's optimization software, just one restriction binds. That is, only a total capital ratio of no less than 8% (including equity and debt) is essential for assessing bank activities. Thus, the overemphasis on equity capital by regulators and market participants is likely to raise the cost of lending for banks, hurting bank profitability, credit extension, and overall economic activity. (Chami & Cosimano, 2005:2)

Basel II

Basel 2, is the second Basel Convention approved by the Basel Committee on Banking Supervision in 1999, The Basel II project comes as one of the most important efforts to strengthen and support the banking sector. The first edition of the Basel II Accord Document was issued in 1999, and the second edition was issued in 2001, after making some amendments and additions, which took place in the context of answering the inquiries of some banks, then the third edition was issued in April 2003.

Basel II is more complex than Basel I for several reasons. One of these reasons is that assessing risk in an environment characterized by the development and expansion of new financial instruments and strategies is complex. Another reason is that the development efforts and amendments that resulted from Basel II have multiple objectives that can be summarized as follows:

1. Develop methods for measuring and managing banking risks.
2. Consistency, as far as possible, between the required capital and the risks to which the bank is exposed.
3. Develop dialogue and understanding between bank officials and national regulatory authorities regarding the measurement and management of risks and the relationship between capital and risks.
4. Increasing the degree of transparency with regard to the risks to which the bank is exposed, and sufficient and timely information must be provided to those dealing with the bank, as they share the bank in the risks it is exposed to.

The first axis differed in the Basel II Accord, the Basel I Accord, in several dimensions, while the two agreements are similar in several dimensions. As for the dimensions of the agreement, it is that the capital adequacy ratio remained unchanged in the Basel II agreement, as the minimum capital adequacy ratio is still 8%. In addition to the components of the capital adequacy ratio numerator, which is the legal or regulatory capital in the agreement 1 Tranche capital (1) (core capital) and tranche capital 2 (subordinate capital) with its various components are the same components in the Basel II Accord.

Basel 1 and Basel 2 are similar in the methods of measuring market risk, where the main document of Basel 2 agreement indicated that the market risks contained in Basel 1 will be applied in Basel 2 without any changes. As for the dimensions of the difference between the two agreements, it is represented in the definition of risk-weighted assets, that is, the methods used to measure the risks facing the bank. The new methods presented by Basel II agreement will lead to the development of the assessment of the risks to which banks are exposed, and then the capital adequacy ratio will be more realistic and consistent with the size of the risks.(Basel Committee on Banking Supervision, 2006)

Basel 1 covers two types of risk: credit risk and market risk. It is worth noting that the Basel Accord, when it was issued in 1988, covered credit risks only. In 1996 the Basel Committee decided to add market risk. As for the Basel 2 agreement, it added operational risk, as the risks covered by the Basel 2 agreement became credit risks, market risks and operational risks. It is worth noting that the different methods of measuring credit risk in Basel 2 compared to Basel 1 and adding operational risks will lead to a change in the capital adequacy ratio, whereby the denominator represents the contingent assets and liabilities weighted by their risk weights.

Regarding the methods of measuring credit risk in the Basel 1 agreement, the risk weights are specified by the Basel Committee and use one size fits all, while the Basel 2 agreement introduced three methods or methods for calculating credit risk:(Al-Ammar & Muhanna, 2016:201).

Standardized approach;

- Basic internal classification method
- Internal rating based-approach (foundation and advanced).

- The bank has the right to choose one of these methods.

Basel II Pillar 1 for Islamic Banks

Hassanain (2018:118) The capital Adequacy Requirement, or CAR, is the first pillar of the Basel II Accord. It is based on the percentage of a bank's capital that should be tied to the risk profile of the institution. To calculate CAR, the following components must be used:

1. Credit risk.
2. Market risk.
3. Operational risk.

Islamic banks' risk management procedures indicate their capacity to:

1. Calibrate capital and map it to company goals.
2. Deal with market discipline.
3. Maintain a communication with regulators.

The features of banks in terms of structuring money in the form of risk-sharing deposits and the materiality of financing transactions have a significant impact on the risks on the banks' balance sheet. Risk-sharing deposits, in particular, provide as a safety net during periods of poor investment performance.

Although they vary, the components of a capital fall into three categories:

Tier 1: Primary capital

Tier 2: Additional capital

Unsecured debt is the third tier of debt.

For a bank to be deemed appropriately capitalized, its capital, Tier 1 and Tier 2, should be at least 8% of total assets. Tier 1 capital is the same for Islamic and conventional banks. However, the shareholders' contribution is not included in the reserves of Islamic banks.

Basel II's Second Pillar for Islamic Banks

Supervisory review is the second pillar of the Basel II Accord. This is the most crucial component of the standards framework, having two objectives:

1. To assess whether banks keep appropriate capital for inherent business risks; and

2. To recommend to banks policies and internal procedures for reviewing and maintaining capital sufficiency based on their risk profile, operations, and business strategy.

When applying the criteria of this pillar, the supervisor should:

- A. Review the bank's internal capital adequacy evaluations and management procedures,
- B. Ensure that the bank's capital objectives and position are consistent with its risk profile;
- C. Intervene if the bank's capital does not effectively safeguard against risks; and
- D. Assess compliance with minimum standards and disclosure obligations.
- E. Recognize and respond to times of deteriorating capital levels
- F. Take necessary action if they are not convinced by the bank's internal processes..

The four principles that must be followed when conducting supervisory review are as follows:

- A. Banks must have a process in place to evaluate their overall capital adequacy based on their risk profiles;
- B. Supervisors must review and evaluate banks' internal capital adequacy assessments and strategies;
- C. Supervisors must expect banks to operate above the minimum regulatory capital ratios; and
- D. Supervisors must expect banks to operate above the minimum regulatory capital ratios.
- E. Supervisors must be alert and react quickly to prevent capital from falling significantly below the minimum necessary levels.

Basel II Pillar 3 for Islamic Banks

The necessity for market discipline is the third pillar of the Basel II Accord. It is based on disclosure requirements and complements the other two pillars. According to this criterion, banks must publish correct information in a timely way so that market participants may properly assess risks.

The disclosure obligations are depending on the importance of the information. This implies that banks must publish complete information without omitting or misspelling anything since doing so might lead to market users being misled. Proprietary and private information, on the other hand, is excluded from dissemination.

The following are the important areas of information that must be presented, both qualitatively and quantitatively:

- A. Capital structure,
- B. Capital adequacy and
- C. Risk exposure and assessment.

2.2.2.2. *Equity to Assets Ratio*

Capital adequacy evaluates a bank's financial health and ability to exist in terms of capital over assets like investments and loans. It may help bank management understand the bank's capacity to withstand shocks during risky times. The equity to total assets ratio will be used to measure capital adequacy once again in our investigation. This metric measures the percentage of total assets sustained by shareholders, as well as their capacity to do so in the case of unexpected losses and bankruptcy. This increase will assist the bank in providing a solid cushion to enhance its loan obligations, mitigate unanticipated risks, and assist the business in the future asset losses. (Al-gazzar, 2014:20)

The capital ratio (TE/TA), which is calculated by total assets to equity, also reflects capital adequacy, and (TE/TA) should represent the overall soundness and soundness of the financial institution. It refers to the bank's ability to absorb losses and deal with shareholder risks. Previous studies have discovered a link between TE/TA and profitability. To check the profitability of the bank, TE/TA is added as an independent variable. Since well-capitalized banks are less risky and more profitable, TE/TA is expected to have a positive performance relationship. (Javaid et al., 2007:5)

2.2.3. Leverage Ratio

Another key metric of financial performance is leverage (gearing). A number of studies (Modigliani & Miller, Ball & Brown,) have argued that a firm's capital structure should include a mix of debt and equity. Despite the fact that this has been hotly debated,

financial leverage has remained a component of the literature on financial performance. The link between leverage and financial success has been thoroughly experimentally established. It has been demonstrated that there is a favorable association between financial leverage and return on assets for banks (Hutchison and Cox, 2014:85). The investigation is broadened to look into the link between return on equity and debt. The findings support the notion that financial leverage and return on equity have a favorable connection. As a result, the following hypothesis emerges: Leverage and financial performance have a favorable relationship. (Yahaya & Lamidi, 2015:2)

Leverage ratios are basically risk metrics, because a borrower that cannot pay off its debt commitments is at significant danger of filing for bankruptcy. A minor degree of leverage, on the other hand, might be beneficial to shareholders since it indicates that the financial institution uses less stock to support operations, enhancing the return on equity for current owners. Furthermore, in the case of a monopoly or duopoly, when the cash flows required to pay debt tend to be more constant across time, a larger debt load may be acceptable.

Leverage ratios are used to measure the relative degree of debt incurred by a corporation. These ratios compare a company's total debt to its assets or equity. A high ratio indicates that a corporation has taken on more debt than it can reasonably be anticipated to service with ongoing cash flows. This is a severe concern since excessive leverage is associated with a greater risk of bankruptcy. The following are the two most critical leverage ratios:

2.2.3.1. *The Debt-to-Equity Ratio (DER)*

Darsono & Ashari (2010: 54 – 55) Debt to equity ratio (DER) is also known as a leverage or solvency ratio. The solvency ratio is a ratio that is used to measure a company's ability to pay its creditors in the event that it goes bankrupt. This ratio is also known as the leverage ratio since it evaluates the company's borrowing constraints. According to (Horne & Wachowicz ,2009: 438), The debt-to-equity ratio (DER) measures how much loan capital is used in contrast to equity investment. Sophisticated lenders and institutional investors will surely investigate the amount of fixed financial charges and evaluate financial risk in relation

to the firm's ability to pay these fees. Individual investors, on the other hand, may evaluate financial risk based on the debt-equity book value ratio. The debt-to-equity ratio and the quantity of fixed expenses compared to the firm's ability to pay these charges in terms of cash flow may or may not have a reasonable connection. Some organizations may have very high debt-to-equity ratios while yet having sufficient cash-flowability to pay debt.

The debt-to-equity ratio is quite widespread and has received significant attention in the current body of research. It is calculated by dividing the entire amount of debt over time by the total value of equity in the balance sheet referred to in the financial statements. The debt-to-equity ratio indicates how much debt and equity reflect each other in percentage terms. In agency theory, the basic assumption under the title of agency cost is that an increase in leverage generates a decrease in the value of agency cost. In this regard, Berger and Udell (2002) discovered that increasing the value of leverage ratio leads to lower cost level and higher performance while keeping all other parameters constant. (Efendi et al., 2019:4)

The researcher says. (Moin, 2013:8) It assesses a bank's ability to absorb financial shocks. In the event that debtors fail to repay their debts or asset prices fall, bank capital protects against loan losses. A bank with a lower Debt-Equity is deemed better than a bank with a greater Debt-Equity Ratio .

2.2.3.2. *The Debt-to-Asset Ratio (DTR)*

It gives information on the bank's stability and capacity to seek extra financing for potentially lucrative investment opportunities. Higher debt-to-total-assets ratio indicates that the bank has funded the majority of its assets through debt rather than equity, and that the bank is engaged in more riskier operations. (Moin, 2013:8)

2.2.4. Assets Quality

Another major aspect influencing a bank's financial success is the quality of its financial assets. Effective management of fixed assets, credit portfolios, current assets, and other investments may result in a financial return, which increases profitability. Interest from funding sources is one of the most important financing returns for banks, and it has a direct impact on profitability. Losses from poor loans are a significant source of risk that may harm a bank's reputation. The major purpose of all banks is to ensure that non-performing loans

are dramatically reduced to a level that is directly related to profitability. The lower the non-performing loan ratio, the better the financial performance of the institutions.. (Dassie, 2018,17)

Financial Assets to Assets

The ratio of financial assets to total assets consists of non-deposit resources, namely loans obtained from the interbank money market and international financial markets, and the ratio of total issuance of asset-backed securities to total assets. The net financial assets in the bank ratio accounts consist of the net financial assets at fair value (Çilek & Karavardar, 2020:109)

2.2.5. Liquidity

Liquidity is one of the most critical aspects impacting a commercial bank's success. (Ramadan,2011,75) defines liquidity as the availability of cash. In other words, it relates to how quickly a bank can swap its assets for cash at face value in order to meet the monetary demands of depositors and borrowers. The more a bank's overall liquid assets, the better its liquidity. It is important to note that banks can experience liquidity issues at any time when checking and savings accounts are withdrawn at a high rate; that is, if checking and savings accounts are drawn more widely than new deposits in a given period of time, banks frequently experience liquidity issues because they may not have enough cash to meet depositors' demands. (Elgadi, 2016:76)

The capacity of a corporation to liquidate maturing short-term debt is referred to as liquidity (within one year). Maintaining adequate liquidity is much more than a business aim. It is a stipulation that must be satisfied in order for a business to continue to exist. Solvency and liquidity are two closely connected words that determine a company's working capital strategy. A lack of liquidity may lead to growing financial expenses and the inability to satisfy commitments. It is common to come across references to the concept that it is better to have the company's liquidity ratio over 1.00. This would illustrate the company's capacity to repay short-term obligations by liquidating short-term assets. Any ratios less than 1.00 may suggest that the company is not generating enough cash to meet its short-term commitments. Another factor for business failure is a lack of money. A firm with the potential

to become an international corporation must be able to pay employees, monthly utility bills, and generate sufficient working capital to carry out day-to-day operations. Anything else is a disaster waiting to happen. As a consequence, the following theory emerges: Liquidity and financial performance have a negative association.. (Yahaya & Lamidi, 2015:2)

The word liquidity is often used in a variety of circumstances. The liquidity of an asset describes how easily that item may be turned into cash. The term liquidity may be used in the banking context to represent the quantity of cash or assets near to cash that a bank has; the greater the liquid assets, the higher the bank's liquidity, and vice versa.

Banks are often exposed to liquidity risk since it is simple for a bank to lose liquidity because depositors may withdraw cash whenever they choose. In addition, banks face additional risks of putting their cash reserves at risk as a result of fulfilling obligations to customers. Previously, these companies had paid debts of financial obligations, known as lines of credit, which could be borrowed from a conventional bank as needed. Historically, bank management processes have demonstrated the susceptibility of institutions to liquidity risk and the severity of its impact on the economy as a whole. In fact, liquidity risk is closely related to the nature of banking.

Islamic banks, like other banking organizations, have liquidity issues since their liquid liabilities and financial commitments are met with illiquid assets. As a result, it seems that Islamic banks are less vulnerable to liquidity problems than conventional banks, particularly in the case of Islamic bank deposits. The first component of liquidity management is real liquidity management, which is the placement of funds in the money market to profit from an Islamic standpoint. The second component is risk management, which enables Shariah-compliant hedging.(State of the Global Islamic Economy Report 2019) Liquidity risk can be measured using two methods: liquidity gaps and liquidity ratios. The liquidity gap is the difference between current and future assets and liabilities. The positive difference between assets and liabilities at any time is comparable to a deficit (Bessis, 2009) Liquidity ratios are several balance-sheet measurements that should identify important liquidity developments. These ratios demonstrate the bank's requirement to guarantee timely access to sufficient, low-cost financing. This may mean preserving a portfolio of easily sold assets (cash reserves, minimum required reserves, or government

securities), holding large amounts of stable liabilities (especially retail depositor deposits), or maintaining credit lines with other financial institutions (Vodová, 2013:27)

2.2.5.1. *Liquid Assets Ratio*

The most often used metric of liquidity risk is the liquid asset ratio, which is the proportion of liquid assets to total assets. This ratio should provide information about a bank's overall liquidity shock absorption capabilities. Given that market liquidity is the same for all banks in the sample, the higher the ratio, the greater the capacity to absorb liquidity shock. However, a high result for this ratio might also be viewed as inefficient. Liquid assets have significant opportunity costs for the bank since they offer lesser revenue. As a result, the relationship between liquidity and profitability must be optimized. It should be noted that the liquid assets ratio has a short range as well: it ignores the flow of money in repayments, the growth of liabilities, and the demand for bank money. It is known that it is one of the most important indicators in assessing the bank's liquidity, as it reflects the relative importance of the bank's liquid assets, including cash and cash equivalents, to the bank's total assets. (Vodová, 2013:27)

2.2.5.2. *Current Ratio (CR)*

The current to voltage ratio. Current ratios are calculated by dividing current assets by current liabilities (Hanafi & Abdul Halim, 2009: 202). This ratio compares a company's cash and assets that can be converted to cash within a year to its total debts that will mature soon (not more than 1 year). According to (Sofyan, 2009: 301), A higher ratio of current assets to current liabilities reflects a company's ability to pay down its short-term debts. In this research, the current ratio (CR) is utilized to assess liquidity. It is calculated theoretically by dividing current assets by current liabilities.

This ratio shows the possibility of covering the liabilities due on assets that consist of cash, or that can be converted into cash on dates consistent with the maturity dates of these obligations, and in this case the rise indicates that the bank can easily convert its current assets into cash. And at the right time, and this ratio should not be less than 2:1, and its increase more than that indicates the existence of idle cash flow without realizing a return. (Hantono, 2018:65).

The current ratio (CR) is the percentage of current assets to current liabilities (Mamdouh & Halim, 2014:75). Because the computation considers the proportionate link between each firm's current assets and current liabilities, the CR or current ratio is a reliable measure of a firm's liquidity (Syamsudin, 1985 in Wibowo and Pujiati, 2011). Potential investors might benefit from the high level of the commercial register. This will raise investor interest in investing, resulting in a rise in current assets. The greater the current ratio, the greater the profit change looks (Kuswadi 2005: 79). Wibowo and Pujiati (2011) indicated that the current ratio has a partly beneficial effect on earnings changes. (Surrey et al. 2018) discovered that the current ratio had a strong beneficial influence on return on assets, as did Saragih et al. (2015), Sophie et al. (2015), Suyono and Gani (2017), and Qurais et al (2018).

2.2.6. Profitability Ratio

Performance proportional to the amount of money invested This economic success is determined by the quantity of net profit accounting. The primary purpose of firms operating in capitalist economies is to provide an adequate return on the degree of risk assumed by the shareholders. Profit, after all, is the driving reason behind any investment in numerous businesses. Profitability is often measured using the ultimate measurements of economic success, the ROA and ROE. A lot of enterprises fail as a result of a lack of profitability. Profit is essential since its lack may indicate failure. This leads to Hypothesis #1, which states that profit and financial performance are positively related. (Yahaya & Lamidi, 2015:2)

Banks always strive to achieve the highest level of profits, as the goal of profitability is one of the main goals of banks, and in order for banks to achieve this goal, they must employ the money they obtain in assets that manage on it appropriate returns such as financing and investment, the more banks seek to increase their revenues and reduce This will increase the bank's profitability,(Jamil & Saeed,2006)

Traditionally, two sorts of ratios are commonly employed in analyzing a bank's overall performance: ROA and ROE. These ratios were deemed the most accurate indicators of the bank's overall success. Other performance measures, such as net interest margin and return on capital, are used in some studies to assess financial performance. Because Islamic banks are interest-free, net interest margin was removed from this analysis. Net interest

margin is the difference between interest income and interest expense expressed as a percentage of total assets. Return on capital has also been eliminated since the researcher wants to utilize ROE, which is a more comprehensive measure of performance in respect to a broader definition of capital. (Elgadi, 2016:74)

One of the most important foundations and criteria for profitability management in Islamic banks

1. Pricing of banking services: that is, pricing the services provided by the bank in proportion to the capabilities of the customer to be able to bear them.
2. Benefiting from large production savings: whenever the expansion of banking units comes, it will lead to an expansion in production as it leads to an increase in costs at a rate less than the increase in production, and banks should take advantage of that by increasing investment assets to equity.
3. Benefit from high-return investments: To benefit from high-return investments, Islamic banks need to manage risks successfully, and rely on continuous growth strategies through geographical coverage.
4. Increasing the percentage of employment with available resources to the maximum extent possible
5. The speed of making decisions and making use of information and communication technology.

2.2.6.1. Return to Assets (ROA)

ROA is a measure of managerial efficiency since it measures management's ability to convert the bank's assets into net profits. In other words, it evaluates a bank's competence and efficiency to profit from its assets. (Al-gazzar, 2014:2)

It is one of the profitability ratios and is considered one of the important financial ratios that measure the performance of the financial institution as an indicator used to measure the financial institution's ability to achieve profits through the total assets owned by it in the future. A high rate of return on assets indicates that the company is effective in managing its assets to generate profits. The rate of return on assets is one of the most traditional financial indicators on which to measure financial performance because it is one

of the profitability ratios and is considered one of the most important ratios that measure the success of a financial institution. (Rosikah et al., 2018: 7)

Divide the overall profit by the total assets to get the return on assets. The ratio is commonly used as a proxy for profitability, and ROA is also used to determine profitability. Many scholars have viewed return on assets as a key instrument for determining a bank's operational efficiency. According to the report, Islamic banks have a greater return on assets than conventional banks. (Press et al., 2012:135)

The rate of return on an asset, or net income on total assets, is described as return on assets. It is a comprehensive and all-encompassing indicator of a bank's profitability and overall performance. It demonstrates banks' ability to generate a profit from their whole activities on their funding sources. It will remain the most extensively used metric for measuring profitability and performance. ROA Introduction Factors Contributing to Its Popularity According to the group of academics, ROA demonstrates management's competence and efficacy in allocating assets to create a net profit. He also notes that regulators frequently utilize ROA since they believe it is the best gauge of a bank's performance. As a result, it continues to be a superior indicator of bank financial performance and managerial efficiency. (Elgadi, 2016:75)

2.2.6.2. Return to Equity (ROE)

Return on Equity is a measure of the profit a bank makes on money given by shareholders. The return on equity also specifies how well the bank's management utilises the cash given by its shareholders. Bashir informed the researchers that the return on equity demonstrates the bank's management's ability in generating profits from shareholders' investments. According to academics, the grounds for adopting return on equity as a performance indicator include that it represents the bank's efficiency in producing a profit from shareholders' funds. Furthermore, it is more complete than other measurements, such as return on capital, because it encompasses a greater range of funding sources. (Elgadi, 2016:75)

Return on Equity is a profitability indicator that is calculated using the amount of capital given by shareholders. It approximates the net benefit achieved by shareholders from

investing in the bank and hence measures the rate of return to the bank's shareholders. (Al-gazzar, 2014:32)



CHAPTER 3: MULTI-CRITERIA DECISION-MAKING METHODS

Multiple Criteria Decision Making (MCDM), also known as Multiple Criteria Decision Examination (MCDE), is a study subject that involves the analysis of numerous possibilities accessible in a circumstance or field of inquiry such as daily life, social sciences, engineering, medicine, and many other disciplines. MCDM is one of the most extensively used decision-making approaches in a broad range of fields.

MCDM assesses criteria to determine if they are appropriate or unsuitable for a certain application. It also attempts to compare this criterion, based on the criteria provided, to every other option available in order to assist the decision maker in selecting an option with the least amount of sacrifice and the largest amount of profit. These variables may be examined using either qualitative or quantitative criteria.(Ozsahin et al.,2021:69)

MCDM methods include a wide range of methodologies. MCDM techniques are categorized into two types: discrete methods of multi-attribute decision-making (MADM) and continuous methods of multi-attribute decision-making (MODM) (Chauhan & Vaish, 2012; Zavadskas et al., 2014). Hundreds of articles have been published recently to provide information about MCDM technologies, their development, and use in a variety of industries. This site aims to document the rapidly growing interest in MCDM techniques and approaches, as well as provide an updated assessment of the literature regarding MCDM applications and methodology. The foundations of MCDM were established in the 1950s and 1960s. MCDM research accelerated in the 1980s and early 1990s and appears to have continued (Köksalan, Wallenius, & Zionts, 2011). In their book, Köksalan, Wallenius, and Zionts (2011) provide a brief history of the development of MCDM technologies. It summarizes the development of the region from antiquity to the present. Kenny, Raifa, and Rajala pioneered the essentials of multi-purpose decision (1979). Hwang and Masud (1979) provided an assessment of the progress made in MODM techniques and applications in a relatively short period of time. Tzeng and Huang (2011) then review the MADM [Simple Additive Weight (SAW)] methods, the preference ordering by analogy with perfect solution (TOPSIS), ellipses and expressing reality (ELECTER) methods, and the linear programming technique for multidimensional preference analysis (LINMAP)(Mardani et al., 2015:519).

3.1. MULTIMOORA

Numerous studies have employed the MULTIMOORA approach to tackle complicated decision-making problems, making it one of the most practical ways available today (Liu et al., 2015: 932). Multi-objective optimization by ratio analysis plus the full multiplicative form (MULTIMOORA), for example, is a valuable technique in multi-criteria decision-making because it offers flexibility and durability. As a consequence, it has found widespread use in a variety of sectors, including the assessment and selection of the best robot for an industrial application. Even when faced with complex decision-making conditions, individuals may be unable to accurately communicate their decision information in mathematical terms and must instead rely on qualitative explanations. This method is incredibly successful and efficient when it comes to fixing problems (Dahooie et al., 2019: 14).

Brauers and Zavadskas were the first to propose the Multi-Objective Optimization by Ratio Analysis (MOORA) approach (2006). Brauers and Zavadskas (2010) developed an extension of this method, which they named MULTIMOORA (multiple-objective optimization) (MOORA plus the full multiplicative form). The reference point technique and the ratio system are the two components of the MOORA method. The Multimoora technique incorporates an additional feature known as internal normalization, and it considers all aims to be equally valuable (Tian et al., 2017: 589). As a result, the Multimoora computation is divided into three parts: the ratio system (RS), the full multiplicative form (FM), and the approach of the reference point (AP) (RP). As a result, the Multimoora approach is a powerful instrument for solving economic and financial problems when faced with an uncertain and partial information platform. Stankevieni & Maditinos (2019: 350) created a suitable framework for the MOORA technique and presented a relationship system in which each answer to an objective option is assessed in respect to a denominator that represents the full collection of alternatives linked to the objective (Brauers & Zavadskas, 2006).

Each of the three major approaches (RS, RP, and RM) is rated independently, The Multimoora technique is used to calculate their scores. This approach is used to compare many possibilities and provide ratings to them. Finally, the order is chosen using dominance theory criteria that take the acquired rankings into consideration. However, there are some

drawbacks to this method, such as the requirement for aggregation and final ranking based on each alternative's ranks already derived from the three different approaches (i.e., RS, RP, and FM) with no consideration for score differences, using the same importance level for these approaches, ignoring score deviation, the complexity of aggregation in dominance theory, and the requirement for multiple comparisons. To address the constraints of the multimooora, the CCSD (Correlation Coefficient and Standard Deviation) approach was used to improve its performance. (Dahooie et al., 2019: 114).

The inclusion of various criteria in the decision-making process, some of which are in conflict with one another, has increased the complexity of the process, making it a significant task for corporate decision-makers to navigate through it successfully (Garg, 2017: 165). Multi criteria decisionmaking (MCDM) is a method that researchers have developed to overcome these complexities and facilitate the decision-making process in these situations. Its effectiveness for solving complex issues has been demonstrated in a variety of management and technical fields over the last several decades (Mardani et al., 2016: 3). Comparative analysis of several decision-making processes is shown in Table 3.1.

Table 3.1. Comparison Between Several Decision-Making Methods

Methods	Computational time	Simplicity	Mathematical calculations	Stability	Information type
MOORA	Very Low	Very Simple	Minimum	Good	Quantitative
AHP	Very High	Very Critical	Maximum	Poor	Mixed
TOPSIS	Moderate	Moderately Critical	Moderate	Medium	Quantitative
VIKOR	Less	Simple	Moderate	Medium	Quantitative
ELECTRE High	Moderately	Critical	Moderate	Medium	Mixed
PROMETHEE	High	Moderately Critical	Moderate	Medium	Mixed

Reference: made by researcher.

Under the MOORA moniker, two alternative approaches will be used to optimize the table's content. There are three ways that make up MULTIMOORA, however they are all interdependent because of the Full Multiplicative Form (for more information, see also: Brauers, Zavadskas 2010). The accompanying diagram (Figure 3.1) demonstrates how the three separate MULTIMOORA procedures can be combined in a single process (Balezentis et al., 2010, 585).

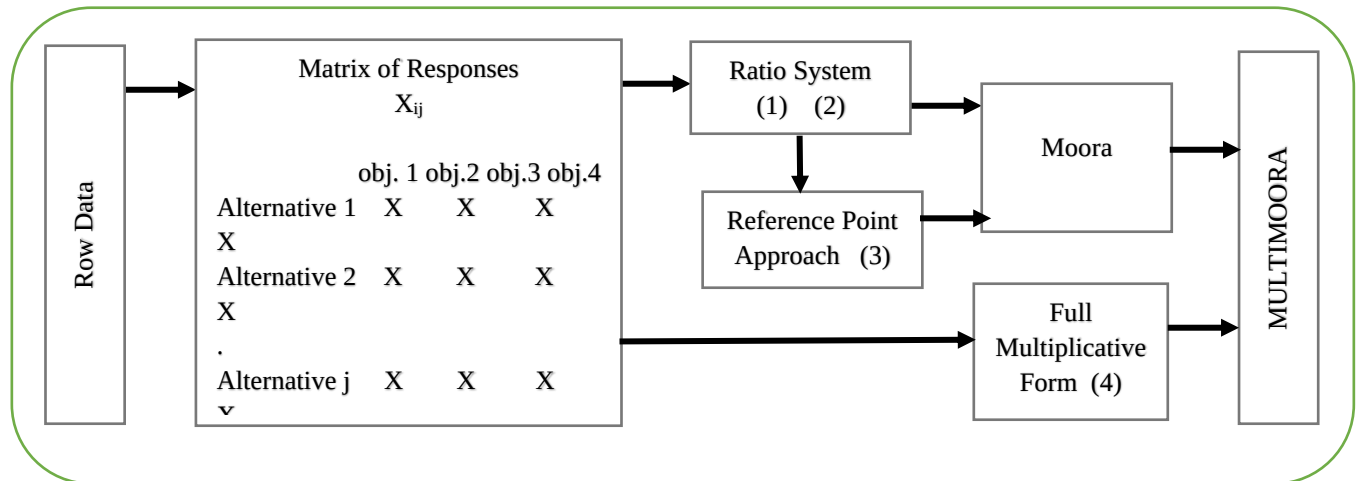


Figure 3.1. Diagram of MULTIMOORA

Reference: Balezentis et al., 2010, 585

In the MOORA approach, all persons who are affected should be taken into consideration, the data should be up to date, all linkages between options and criteria should be taken into consideration, and the technique should be objective in nature. The final evaluation should be carried out using a variety of MOORA methodologies.

Techniques used in MOORA include the following:

- MOORA-Ratio Method,
- MOORA Reference Point Approach,
- MOORA-The Full Multiplicative Form, and
- MULTIMOORA.

It is not a standalone MCDM (multi-criteria decision making) issue solving methodology, but rather one that is based on the evaluation of other MOORA strategies and the ranking of the dominating methods.

1. MOORA-Ratio Method:

Step 1: Creating the decision matrix

The first step is to create the choice matrix: The decision matrix's rows contain the alternatives whose benefits must be enumerated, while the columns contain the evaluation criteria to be employed in decision making.

$$D = \begin{bmatrix} x_{11} & \cdots & x_{1n} \\ \vdots & \ddots & \vdots \\ x_{m1} & \cdots & x_{mn} \end{bmatrix} \quad (1)$$

$i = 1, 2, \dots, n$ (objectives)

$j = 1, 2, \dots, m$ (alternatives)

Step 2: Performing the normalization process

Normalization: Each criterion's column value sum is divided by the square root of its square root to arrive at the final score.

$$x_{ij}^* = x_{ij} / \sqrt{\sum_{i=1}^m (x_{ij})^2} \quad (2)$$

x_{ij} is the alternative's response, or response to a goal.

If j , then the number of possibilities is $1, 2, \dots, m$.

as $1, 2, \dots, n$; the total number of goals

Step 3: Taking the difference of the maximum and minimum value sums:

The Y_i value is calculated by subtracting the sum of the criteria that should be minimal from the total of the criteria that should be maximal for each choice.

$$y_i^* = \sum_{j=1}^g x_{ij}^* - \sum_{j=g+1}^n x_{ij}^* \quad (3)$$

There are g objectives to be maximized ($j=1, 2, \dots$), and n objectives to be reduced ($j=g+1, \dots, g+2, \dots$). For all purposes, this is a normalized evaluation of the alternative j .

Step 4: Ranking

The results are sorted in ascending order by size (Y_i values are ranked as calculated in the third step).

2. MOORA Reference Point Approach

The method is carried out in this stage after determining whether the maximum or minimization of the criteria is advantageous in the first place. It is determined which of the alternatives has the highest maximum value of the criterion that is intended to be at its highest level, and the other criteria values are removed from the highest maximum value. The smallest possible value of the criterion that is intended to be the smallest is identified among the options, and the smallest possible value is deducted from the values of the other criteria.

The reference point is determined from the normalized data obtained with the MOORA Ratio Approach; the maximum value of the alternatives in the case of maximization according to the objectives and the smallest value " r_j " in the case of minimization are both chosen as the maximum and minimum values,

$$r_j = x_{ij}$$

$j = 1, 2, \dots, m$; m the number of alternatives;

$i = 1, 2, \dots, n$; n the number of objectives;

x_{ij}^* = normalized value of " i " criterion in " j " alternative,

r_j = " j " represents the reference point of the alternative.

When the maximum values in each option are reached, the newly produced new matrix is picked and sorted using the Tchebycheff min - max metric operation on the maximum values in each alternative. The reference point strategy is used to organize the sorting process.

Tchebycheff's Min-Max Metric formula

$$\text{Min} \{ \max | r_i - x_{ij}^* | \}$$

The Reference Point Matrix is thus constructed in this manner.. The maximum value of each possibility is selected and written down in accordance with this matrix. The choices are then ordered from smallest to largest in accordance with the maximum points that have been written.

3. MOORA- The Full Multiplicative Form (FMF)

The MOORA-Ratio approach is quite similar to this method. Another technique, the MOORA-Exact Product method, is based on the concept of maximization of benefit while

reducing expense. The difference between this method and the MOORA-Ratio method is that this method makes use of the product form. The value of each choice is determined by multiplying the maximum directional data determined at the beginning of the procedure by the product of the minimum directional data and dividing the result by the product of the maximum directional data.

As a result of this method, the product of each choice for maximization data is "A" divided by the product of data for minimization is "B_i

$$U_i = \frac{A_i}{B_i}$$

$$A_i = \prod_{g=1}^j x_{gj} \quad B_i = \prod_{k=j+1}^n x_{kj} \cdot$$

The score of each possibility is displayed in the "U_i" field. In this case, the "U_i" values are arranged from largest to smallest, and the first alternative is determined to be the most appropriate.

3.2. TOPSIS (Technique for Order Preference by Similarity to Ideal Solution)

One of the most extensively utilized multi-attribute decision-making (MADM) strategies is TOPSIS (Technique of Order Preference by Similarity to Ideal Solution), developed by Hwang and Yoon. As a result of its simplicity and effectiveness, TOPSIS has been widely used for solving real-world issues across a wide range of fields. According to studies, TOPSIS is the second most widely used MADM approach after AHP. Has been widely used to deal with a wide range of practical MADM issues since its introduction and is now one of the most prominent MADM methods. TOPSIS uses the concept of a compromise solution to rank the options. Using the distances between alternatives and the positive ideal solution (PIS) and the negative ideal solution (NIS) for each option, TOPSIS helps the decision-maker in ranking possibilities (NIS). In order to rank the alternatives, TOPSI receives two sorts of information from the user. To begin, there is a preset set of performance evaluation criteria and a set of decision information (sometimes referred to as a decision matrix). Another piece of information is the percentage showing how important the

condition is. Mathematical descriptions of the decision information and weight information are as follows: (Dutta et al.,2021: 65-66):

- A finite set of $m(2)$ options: $X = x_i | i \in I$, with $I = 1, 2, \dots, m$
- A predetermined set of criteria: $C = C_j | j \in J$ where $J = 1, 2, \dots, n$
- The criteria's weight vector: $w = (w_1, w_2, \dots, w_n)$ such that $w_j > 0$ and $\sum_{j=1}^n w_j = 1$.
- The options are evaluated using criteria, and the results are reported in the decision matrix below:

$$D = \begin{matrix} & C_1 & C_2 & \cdots & C_n \\ \begin{matrix} x_1 \\ x_2 \\ \vdots \\ x_m \end{matrix} & \begin{pmatrix} a_{11} & a_{12} & \cdots & a_{1n} \\ a_{21} & a_{22} & \cdots & a_{2n} \\ \vdots & \vdots & \cdots & \vdots \\ a_{m1} & a_{m2} & \cdots & a_{mn} \end{pmatrix} \end{matrix}$$

The performance measure of the alternative x_i when compared to the criteria C_j is denoted by the symbol a_{ij} . TOPSIS can score the choices based on the information provided above by following the procedures outlined below:

$$r_{ij} = \frac{a_{ij}}{\sqrt{\sum_{i=1}^m a_{ij}^2}}$$

For cost attributes:

$$r_{ij} = \frac{1/a_{ij}}{\sqrt{\sum_{i=1}^m 1/a_{ij}^2}}$$

The first step is to normalize the decision matrix. The following is the formula for computing the normalized decision matrix $R = (r_{ij})_{m \times n}$: For benefit attributes:

The second step is creating the weighted normalized decision matrix in Step 2 is the next step. The following is the formula for computing the weighted normalized decision matrix

$$V = (v_{ij})_{mn}: \text{for the integers } i = 1, 2, \dots, m, \text{ and for the integers } j = 1, 2, \dots, n \quad (3)$$

$$v_{ij} = w_j * r_{ij} \text{ for } i = 1, 2, \dots, m, j = 1, 2, \dots, n \quad (3)$$

The third Step is the measurement of the positive ideal solution and the negative ideal solution in:

$$PIS = (v_1^+, v_2^+, \dots, v_n^+) = ((\max_i v_{ij} : j \in C'), (\min_i v_{ij} : j \in C''))$$

$$NIS = (v_1^-, v_2^-, \dots, v_n^-) = ((\min_i v_{ij} : j \in C'), (\max_i v_{ij} : j \in C''))$$

where C^I denotes the set of benefit criteria and C^{II} is the set of cost criteria.

The Fourth Step is using the n-dimensional Euclidean distance, step 4 calculates the separation measures between two points. The following is the formula for calculating the separation measure between the alternative A_i and PIS:

$$D_i^+ = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^+)^2}$$

Similarly, the separation measure from NIS is obtained as follows:

$$D_i^- = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^-)^2}$$

The Fifth Step is the calculation of the relative proximity coefficient between the ideal solutions and the observed solutions. The relative proximity coefficient for an alternative A_i is defined as follows: for alternative A_i :

$$C_i = \frac{D_i^-}{D_i^+ + D_i^-} \text{ for } i = 1, 2, \dots, m$$

The sixth Step is organize your thoughts and feelings about the situation. A ranking of alternatives is done based on their relative proximity coefficients. The lower the value of the relative proximity coefficient, the higher the position of the alternative.

3.3. DATA ENVELOP ANALYSIS

Each unit's output-to-input ratios are calculated using Data Envelopment Analysis (DEA). In many ways, it's a method that's connected to the efficiency rating. The efficiency

of a decision-making unit (DMU) is examined in this study, and the DMU is a financial institution (Ray, 2004). To find the most efficient units, DEA doesn't require a predetermined structure for the data, hence it doesn't have a high level of specification error. Using a technique that can handle several variables and relationships is also employed (Cooper et al., 2007). The most significant attribute of DEA is the bank's efficiency, which can be quantified by various observed performance metrics. One of the drawbacks of DEA is that it relies on the assumption that data is free of measurement error (Avkiran, 1999). If the data has been tampered with in any way, it is impossible to draw valid conclusions. Data from the DEA is particularly vulnerable to errors, in the same manner that other studies do. Efficient frontier efficiency scores are influenced by the units regarded to be efficient in the process of determining the efficient frontier. There are no standard errors in DEA data, according to Ray (2004), therefore assumptions cannot be verified. Apart from that, any deviance from the border will be viewed as inefficient, and there will be no room for random shocks to occur. Coelli and colleagues (2005) advocate using distance functions comparable (extensions) to DEA, such as the Malmquist Productivity Index, to quantify changes in technical efficiency and technological change features. Multi-input and multi-output functions, which are closely associated with the banking business, can be expressed using this way. According to Coelli et al. (2005), the index computes the ratios of a given value (increase/decrease rate) across two time periods in order to analyze the difference in productivity between two data points. Reallocation with the Malmquist Productivity Index, as outlined by Mayer and Zelenyuk (2014), allows for consideration of changes in group productivity over time, allowing for input reallocation between DMUs (2014). When it comes to the orientation of the output, There are two steps to each of the SFA and DEA procedures, which are separated by an intermediary phase. As a first step, researchers estimate efficiency and inefficiency scores based on their own research objectives and findings. Using the scores, banks are ranked according to their efficiency and efficiency level, respectively. The next step is to investigate the link between the inefficiency estimates and other significant variables, such as the size and location of the firm. This method could be employed in any sector of research where variables influence managerial decisions. Hasan (2005) commented that the frontier approach could be applied in any field of inquiry where variables yield to management

(Mohd, Faizal, 2016 :37)

Decision Making Units, or DMUs, are a set of peer entities that convert a big number of input variables into a large number of output variables. This relatively new "data-oriented" technique is known as Data Envelopment Analysis (DEA) (DEA). A DMU is defined in such a way that it can be used in a variety of contexts. There have been a slew of DEA applications developed in recent years for measuring the performance of numerous types of businesses engaged in numerous activities under numerous conditions in numerous countries, all of which have been put into use. Hospitals, financial institutions, educational institutions, commercial businesses, and other organizations, as well as countries and regions have all had their performance evaluated using DMUs of various types in these DEA applications. Decomposition analysis has opened up new applications for signal processing in situations previously inaccessible to DEA because of the complex (and at times ambiguous) linkages between the various inputs and the multiple outputs in DMUs (Seiford & Zhu, 2011: 1-2).

The earliest data envelope analysis models were developed by Charnes, Cooper, and Rhodes and are known by the acronym CCR. These models, which rely on the ratios of outputs to inputs to measure the relative performance of Decision Making Units (DMUs), were based on the assumption that all inputs and outputs are exactly known and that the Decision Making Unit (DMU) consists of a single stage. Charnes, Cooper, and Rhodes developed the earliest data envelope analysis models, which are known by In accordance with (Pouryusef et al., 2011: 1-2), the model's equations are as follows.

DEA models for two-stage processes with input and output.

(Chen,2010:139)Consider the basic two-stage procedure shown in Fig. 1 for each of n DMUs. We presume that each DMU $_j$ ($j=1,2,3...n$) m in puts $x_{ij}(i=1,2,3...m)$. D outputs to the first stage $z_{dj}(d=1,2,3...D)$ from from point forward These D outputs are then used as inputs to the second step, acting as intermediate measurements. The second stage's outputs include $y_{rj}(r=1,2,3...s)$

1. Orientation of input

For DMU $_j$, the efficiency ratios for the first and second stages are denoted as θ_j^1 and θ_j^2 , respectively. We define the input-oriented DEA model of Charnes et al. (1978) as

follows:

$$\theta_j^1 = \frac{\sum_{d=1}^D w_d z_{dj}}{\sum_{i=1}^m v_i x_{ij}} \quad \text{and} \quad \theta_j^2 = \frac{\sum_{r=1}^s u_r y_{rj}}{\sum_{d=1}^D \tilde{w}_d z_{dj}},$$

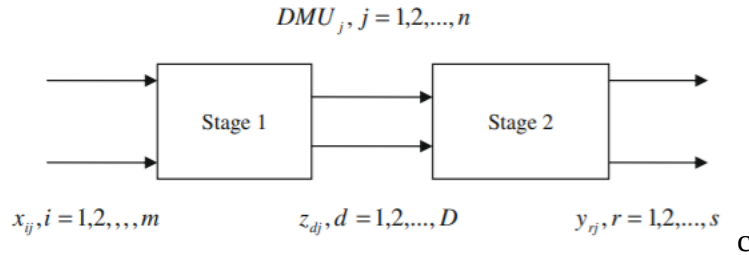
where v_i , w_d , $\tilde{w}_d$, and u_r are unidentified non-negative weights. As in Kao and Hwang, it is assumed that w_d equals $\tilde{w}_d$ (2008). As a consequence, the two-stage total efficiency ratio is defined as θ_j^1 and θ_j^2 equals , Kao and Hwang (2008) provide the following model to determine the total efficiency of θ_j .

$$\theta_j = \frac{\sum_{r=1}^s u_r y_{rj}}{\sum_{i=1}^m v_i x_{ij}}.$$

Kao and Hwang (2008) provide the following model to determine the total efficiency of θ_j

$$\begin{aligned} \text{Max} \quad & \theta_j^1 \bullet \theta_j^2 = \frac{\sum_{r=1}^s u_r y_{rj}}{\sum_{i=1}^m v_i x_{ij}} \\ \text{s.t.} \quad & \theta_j^1 < 1 \text{ and } \theta_j^2 \leq 1 \text{ and } w_d = \tilde{w}_d. \end{aligned}$$

Model (2) may be translated into the following linear program using the standard transformation.



3.4. ANALYTIC HIERARCHY PROCESS (AHP)

In addition to being extremely adaptable, the Analytic Hierarchy (AHP) method provides a basic technique for determining the link between criteria and choices. In the case of intricate scenarios including a big number of criteria and a large number of options, this method determines the relevance of the criteria in the actual world and the interaction between the criteria. Using this method, complex problems might be separated into distinct hierarchies, allowing both the quantitative and qualitative aspects of the problem to be evaluated and understood better. The AHP connects all levels of the hierarchy at all times. It

becomes feasible to examine how changing one criterion affects the other criteria and possibilities as a result of this. It is a multiple-criteria technique that is based on the need of complex problems branching into a hierarchical structure of specific elements that are objective (goal), criteria (sub-criteria), and alternatives. Technique based on a hierarchical structure of objective (goal), criterion (sub-criterion), and alternative elements for complex situations. The following mathematical model was created by Pachemska et al. (2014) to describe AHP (Pachemska et al., 2014: 373-375):

If there are n elements which are compared, the comparison results create matrix form A with dimension $n \times n$. Then:

$$A = \begin{bmatrix} A_{11} & A_{12} & A_{1n} \\ A_{21} & A_{22} & A_{2n} \\ A_{m1} & A_{n2} & A_{mn} \end{bmatrix}$$

The elements of the matrix, or the ratio between the criteria that are being compared, are stated by the following formula:

$$a_{ij} = \frac{W_i}{W_j}$$

Considering the first axiom for reciprocal:

$$a_{ij} = \frac{1}{a_{ji}}$$

To complete the process, must first obtain a normalized matrix $B = [b_{ij}]$. The elements of the matrix B are calculated in the following manner:

$$b_{ij} = \frac{a_{ij}}{\sum_{i=1}^n a_{ij}}$$

The calculation of the weights i.e. eigenvector $W = [w_{ij}]$ from the normalized matrix B is performed by calculating the arithmetic mean for each row of the matrix according to the formula:

$$w_{ij} = \frac{\sum_{j=1}^n b_{ij}}{n}$$

3.5. VIKOR - (Vlse Kriterijumska Optimizacija Kompromisno Resenje)

VIKOR (Vlse Kriterijumska Optimizacija Kompromisno Resenje) is the Serbian abbreviation for "multicriteria optimization with compromise solution," or "multicriteria optimization with compromise solution." For its simplicity and accuracy, the method has already been widely accepted as a multi-criteria decision making tool. In order to aid the decision-maker in making a final decision for a particular situation, this strategy focuses on picking and ranking from a collection of feasible options, as well as finding a compromise solution for a problem with competing criteria. Compromise options are ranked according to how close they are to the ideal answer, based on a precise measurement. Vikor has undergone a lot of modifications and extensions based on the choice problem and the decision-maker's. As an illustration, the VIKOR method can be applied in a variety of ways, such as the following: in its whole, as part of an analysis based on regret theory, in a modified form, or as an interval approach. There is evidence to suggest that the interval VIKOR strategy outperforms the fuzzy VIKOR method when dealing with uncertain data. In the end, the original VIKOR is the most efficient way to solve any choice problem without complicating the underlying math. This must be followed by an appropriate evaluation or decision matrix, which compares and contrasts the choices based on a range of criteria, after VIKOR has been implemented. The j th criterion's performance metric for the i th alternative is defined as F_{ij} . A multi-criteria measure for ranking compromises is generated using the L_p -metric as an aggregating function in the compromise programming approach and then used to identify which concessions are the best. Authors Chakraborty and Chatterjee released a paper on the subject in 2016. (Chatterjee & Chakraborty, 2016: 469).

Where M is the number of criteria to be considered The number of choices is denoted by N , and the relative relevance (weight) of the j th criterion is denoted by w_j .

$$L_{p,i} = \left\{ \sum_{j=1}^M (w_j [(f_{ij})_{\max} - f_{ij}] / [(f_{ij})_{\max} - (f_{ij})_{\min}])^p \right\}^{1/p}, \quad 1 \leq p \leq \infty; i=1,2,\dots,N$$

3.6. ELECTRE

The ELECTRE method is one of the strategies that are accessible in compensating models. In this procedure, all of the possibilities are evaluated by making "non-ranking" comparisons between them. As a result, the method is referred to as Analysis of coordination since it is based on both a coordinated and a non-coordinated set at each stage of the process. Thereafter, Van Delft, Nijkamp, and Roy and other colleagues came up with the ELECTRE approach. When it comes to the ELECTRE method, the idea of dominance is implicit. Pairwise comparisons of options or alternatives are used to identify the most dominant and weak possibilities, which are then eliminated from consideration (Abdolazimi et al., 2015: 71).

To be more specific, ELECTRE approaches are based on the so-called outranking approach (Roy, 1991); in other words, they attempt to build outranking relations by comparing alternatives pairwise. There are two types of tests that must be performed in order to analyze and confirm these relationships: the concordance test and the discordance test, which are both used to calculate the concordance and discordance indices. To measure the degree of agreement that option A_i outranks or is equal to alternative A_j using a specified criterion, the concordance index C_{ij} uses a distinct numerical expression. However, a discordance index D_{ij} quantifies the degree to which two alternatives A_i and A_j agree that A_i has a lower score than A_j , based on a given criterion, once again quantitatively. In order to use the ELECTRE method, the following input data must be gathered ahead of time: In order to evaluate the alternatives A_i , a set of criteria, a weighted w_k vector, and a numerical evaluation of the alternatives with respect to the $u_k(A_i)$ considerations are used (Silvia, 2018: 459-460).

The following are the stages and equations of the ELECTRE method of problem solving: (Abdolazimi et al., 2015: 70-73).

1. Creating a decision-making matrix For each criterion, we've evaluated all possible outcomes and created the following decision matrix based on those findings:

$$X = \begin{bmatrix} X_{ij} & X_{...} & X_{1n} \\ \dots & \dots & \dots \\ X_{m1} & X_{n2} & X_{mn} \end{bmatrix}$$

The performance or functionality of choice I th $I = 1, 2, \dots, m$) in relation to criteria

jth ($j = 1, 2, 3, \dots, n$) is denoted by the variable X_{ij} .

2. The decision matrix R is stated as follows in an attempt to convert criteria with various dimensions or aspects into criteria with no dimensions or aspects. In the ELECTRE approach, the following equation is frequently used to create criteria that are dimensionless. There are a variety of methods for creating dimensionless criteria:

$$R = \begin{bmatrix} r_{11} & \dots & r_{1n} \\ \vdots & \dots & \dots \\ r_{m1} & \dots & r_{mn} \end{bmatrix} \quad r_{ij} = \frac{x_{ij}}{\sqrt{\sum_{i=1}^m x_{ij}^2}}$$

3. The third step is to determine the weight matrix for the criterion. One interesting property of this W matrix is that it has only one non-zero diagonal component, and the significance coefficient of that vector is equal to the value of that diagonal member.

$$W = \begin{bmatrix} w_1 & \dots & 0 \\ \vdots & w_2 & \dots \\ 0 & \dots & w_n \end{bmatrix}$$

4. By multiplying the descaler's descaled decision matrix by the matrix with the weights of criteria, the weighted normalized decision matrix is formed Making a decision matrix that's weighted and normalized:

$$V = R \times W = \begin{bmatrix} v_{11} & \dots & v_{1n} \\ \vdots & \dots & \dots \\ v_{m1} & \dots & v_{mn} \end{bmatrix}$$

5. Criteria for agreement and comparison are developed: The set of criteria $J = (1, 2, \dots, m)$ is divided into two groups or subsets for each pair of e and k possibilities ($k, e =$

$$S_{ke} = \{j | v_{kj} \geq v_{ej}\}$$

$$I_{ke} = \{j | v_{kj} < v_{ej}\}$$

1,2,..., m, k # e): those that agree and those that oppose or oppose: The agreement set (SKe) is a set of criteria in which option K is preferred to option e, whereas the against set is its complementary set (IKe). Equations (2) and (3) state mathematically that:

6. The initial step in creating the agreement matrix is to determine the elements of the agreement, known as collaboration criteria, which are then included into the agreement matrix. According to the agreement criteria, total weights of all the criteria that are in agreement must be added together. This criterion of collaboration The following equation (Equation 4) can be written as a Cke between k and e

If the collaboration criterion is used, the value can range from 0 to 1, indicating a

$$c_{ke} = \frac{\sum_{j \in S_{ke}} W_j}{\sum_{j=1} W_j}$$

For the sum of normalized weights $\sum_{j=1} W_j$ is equal to 1; therefore, Equation (5):

$$c_{ke} = \sum_{j \in S_{ke}} W_j$$

preference for option k over option e. The agreement matrix (which is a m m matrix) has the following definition when all alternatives are taken into account and the collaboration

$$C = \begin{bmatrix} - & c_{12} & \dots & c_{1m} \\ c_{21} & - & \dots & c_{2m} \\ \vdots & \vdots & - & \vdots \\ c_{m1} & \dots & c_{m(m-1)} & - \end{bmatrix}$$

conditions are calculated for each one; however, this matrix is not generally symmetric:

7. Calculating the disagreement matrix is step 7 of the process. It is defined as follows in Equation (6): The Disagreement Criterion (opposite):

$$d_{ke} = \frac{\max_{j \in I_{ke}} |v_{kj} - v_{ej}|}{\max_{j \in J} |v_{kj} - v_{ej}|}$$

The criteria of disagreement (opposite) ranges from 0 to 1. By computing the disagreement criteria for each pair of alternatives, the disagreement matrix, which is a m × m matrix, is defined as follows; this matrix is not symmetric in general:

$$D = \begin{bmatrix} - & d_{12} & \dots & d_{1m} \\ d_{21} & - & \dots & d_{2m} \\ \vdots & \vdots & - & \vdots \\ d_{m1} & \dots & d_{m(m-1)} & - \end{bmatrix}$$

Information and data in the agreement matrix varies significantly from that in the disagreement matrix, and there are considerable differences between the two documents. This should be taken into consideration. As a matter of fact, the two things are inseparable. Weight differences are achieved using the agreement matrix, whereas determined values are achieved using the disagreement matrix.

8. Making an agreement dominance matrix is step 8 in the process. The expression "calculating the criteria of agreement C_{ke} " was used in the sixth stage of the process. At this point, a specific amount is chosen for the agreement criterion, which is referred to as the agreement threshold and is depicted by the letter C . It is accepted that alternative k is superior to alternative e if the difference between the two numbers is greater than C_{ke} ; otherwise, the alternative k is not superior to the alternative e . The following equation, Equation (7), can be used to find the value of the agreement threshold

$$\bar{c} = \sum_{\substack{k=1 \\ k \neq e}}^m \sum_{\substack{e=1 \\ e \neq k}}^m \frac{c_{ke}}{m(m-1)}$$

As a result of the value of the agreement threshold, a dominance matrix (F) is formed, and its members are defined by the following equation (8):

$$f_{ke} = \begin{cases} 0 & c_{ke} \geq \bar{c} \\ 1 & c_{ke} < \bar{c} \end{cases}$$

9. Creating a matrix of conflict and dominance: The disagreement dominance matrix (G) is constructed in the same way as the agreement dominance matrix. This can be accomplished by expressing the: disagreement threshold, which can be expressed in a variety of ways such as the mean of: disagreement (opposition) criterion, by decision makers. Equation (9) is as follows

Previously, in stage seven, it was indicated that the lower the criterion for disagreement (d_{ke}), the better because it indicates the superiority of choice k over option e in terms of the degree of disagreement between the two options. To determine the dominance

$$\bar{d} = \sum_{\substack{k=1 \\ k \neq e}}^m \sum_{\substack{e=1 \\ e \neq k}}^m \frac{d_{ke}}{m(m-1)}$$

matrix of disagreement elements (G), should need to know if D_{ke} exceeds d , which indicates a substantial and not negligible level of disagreement. The tenth equation: A large degree of disagreement exists when D_{ke} is greater than d .

Each member of the matrix (G) represents the dominance relationship that exists between two or more potential solutions.

10. By multiplying each member of the agreement dominance matrix F by that of disagreement, after arrive at the final dominance matrix H. The following is the answer to equation (11)

$$h_{Ke} = f_{Ke} \cdot g_{Ke}$$

11. Eliminating the least enjoyable possibilities and selecting the best one: For options that are either insignificant or trivial, H is the final dominance matrix. Suppose the value of h_{ke} is 1, which indicates that the superiority or dominance of option k over option e is acceptable in both agreement and disagreement situations, meaning that the superiority of option k over option e exceeds the agreement threshold and the disagreement or weakness of option k exceeds the disagreement threshold, but that the option k still has the possibility of being dominated by other options. It is preferable to choose the option that has more dominance over the other options rather than the option that has been vanquished, and the

options can be rated accordingly. For the purpose of finding the significance coefficient of criteria in relation to one another, the initial criteria are compared with one another in pairs.

3.7. PROMETHEE

The complexity of the decision-making process is determined by the number of criteria and options that are examined throughout the evaluation phase of the procedure. But the PROMETHEE (Preference Ranking Organization METHod for enrichment evaluation) family of outranking methods is a qualitative and quantitative evaluation method that is characterized by three pillars: the enrichment of the preference structure by using different preference functions, enrichment of the dominance relationship between alternatives for each criterion, and decision aiding after the partial and complete ranking. In this method, six major preference functions can be utilized in accordance with the characteristics of the criteria; these preference functions remove the effect of criteria scaling, which is one of the main advantages of this method. Using their views, decision makers can set the type of preference function and the threshold values for each criterion; the overall evaluation is computed at the stage of the complete net flow. The following are the steps to be followed when applying this strategy to an MCDM problem (Oubahman & Duleba, 2021: 69-72):

Consider the following set of m choices $A = A_1, A_2, \dots, A_m$ and the following set of n criteria $C = C_1, C_2, \dots, C_n$. As a result, obtain the Pythagorean fuzzy decision matrix,

$$X = (x_{ij})_{m \times n} = \begin{matrix} & \begin{matrix} C_1 & C_2 & \dots & C_n \end{matrix} \\ \begin{matrix} A_1 \\ A_2 \\ \vdots \\ A_m \end{matrix} & \begin{pmatrix} \alpha_{11} & \alpha_{12} & \dots & \alpha_{1n} \\ \alpha_{21} & \alpha_{22} & \dots & \alpha_{2n} \\ \vdots & \vdots & \ddots & \vdots \\ \alpha_{m1} & \alpha_{m2} & \dots & \alpha_{mn} \end{pmatrix} \end{matrix}$$

which has the following representation:

Step 1: Determine the disparities in performance levels.

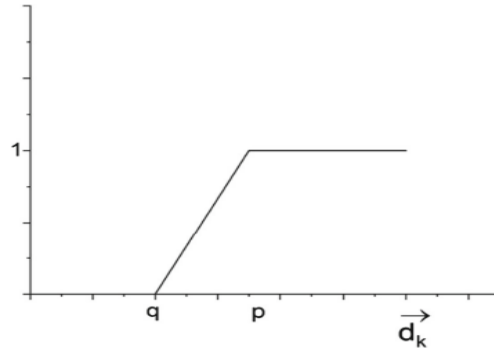


Figure 3.2. Shape Criterion Function With Indifference Area

In this step, compare each pair of alternatives. Since the rating values of the alternatives are PFN, compare the deviations between any two alternatives over each criterion with score function of PFN (see Definition 4). The difference value of i th alternative to other alternatives is given by:

$$d_k(a_{jk}, a_{ik}) = s(a_{ik}) - s(a_{jk}) = \mu_{ik}^2 - \nu_{ik}^2 - (\mu_{jk}^2 - \nu_{jk}^2)$$

where $s(a_{ik})$ is the score value of a_{ik} .

Step 2. Construction of a preference function is the second step. When the difference is minor, consider no preference, and when the difference is significant, consider a strong preference. take into consideration the V - shape criterion function with indifference area, which is defined as follows:

$$P_k(a_{ik}, a_{jk}) = \begin{cases} 0, & d_k(a_{ik}, a_{jk}) \leq q \\ \frac{d_k(a_{ik}, a_{jk}) - q}{p - q}, & q < d_k(a_{ik}, a_{jk}) \leq p \\ 1, & d_k(a_{ik}, a_{jk}) > p \end{cases}$$

P and Q are two parameters, with p representing the value of strict preference threshold and q representing the value of indifference threshold, respectively. The V-shape of this preference function is depicted in Fig..

Step 3: Make a list of all of the things you want to do. Estimate your total preferences and build a preference matrix from that information. The total preference index for an alternative A_i with respect to a competing alternative A_j is calculated in this phase using all of the criteria, and it is defined as follows::

$$\pi(A_i, A_j) = \sum_{k=1}^n w_k P_k(\alpha_{ik}, \alpha_{jk}), \quad \text{for all } A_i, A_j \in A$$

In this equation, $W_1, W_2, \dots, W_n$ denotes the weights assigned to each of the related criterion $C_1, C_2, \dots, C_n$. As a result, obtain the preference matrix shown below, whose entries represent aggregated preference values.

$$\begin{matrix} & A_1 & A_2 & \dots & A_m \\ \begin{matrix} A_1 \\ A_2 \\ \vdots \\ A_m \end{matrix} & \begin{pmatrix} - & \pi(A_1, A_2) & \dots & \pi(A_1, A_m) \\ \pi(A_2, A_1) & - & \dots & \pi(A_2, A_m) \\ \vdots & \vdots & \ddots & \vdots \\ \pi(A_m, A_1) & \pi(A_m, A_2) & \dots & - \end{pmatrix} \end{matrix}.$$

The diagonal members of the aforementioned matrix have no value assigned to them. As a result, when compare one alternative A_i with another alternative A_i that is the same, no preference value is provided to either alternative A_i .

Step 4: Calculate the outranking flows from both the exiting and entering outranking flows. Taking a look at the preference matrix, you can see that each alternative A_i is compared with the other $(m - 1)$ alternatives in the set of alternatives $A = A_1, A_2, \dots, A_m$. The following is the formula for determining departing outranking flow (positive outranking

$$\phi^+(A_i) = \frac{1}{m-1} \sum_{X \in A} \pi(A_i, X), \quad \text{for each } A_i,$$

flow):

and the average value of the i th column for the alternative A_i is represented by this value. In this case, the magnitude to which one alternative dominates other alternatives is indicated by a positive outranking flow. In the same way, negative outranking flow indicates

the extent to which one alternative is outranked by other alternatives.

The fifth step is to compute the net outranking flows. In PROMETHEE I, the net outranking flows are not necessary for ranking the alternatives because the alternatives are already ranked. The comparison of one choice with another is done one at a time in this manner. Accordingly, using positive outranking flow $\phi^+(A_i)$ and negative outranking flow $\phi^-(A_i)$, PROMETHEE I provides a partial order ranking with the help of positive outranking flow $\phi^+(A_i)$. The following is the derivation of the preference relation and partial pre-orders P, I, and R.

$$\begin{aligned}
 & A_i P A_j \text{ (} A_i \text{ outranks } A_j \text{)} \\
 & A_i I A_j \text{ (} A_i \text{ is indifferent with } A_j \text{)} \\
 & \text{if } \phi^+(A_i) = \phi^+(A_j) \text{ and } \phi^-(A_i) = \phi^-(A_j).
 \end{aligned}$$

If an alternative A_i is equivalent to an alternative A_j , then the following is true:

The alternatives, on the other hand, are incomparable, namely, $A_i R A_j$. PROMETHEE II provides a comprehensive ranking of the available options. This is the method that emphasize the most in our model. In order to construct the PROMETHEE II technique using PFN, must first calculate the net outranking flow as follows:

$$\phi(A_i) = \phi^+(A_i) - \phi^-(A_i) \text{ for } i = 1, 2, \dots, m.$$

Then, the complete orders P and I are derived as:

$$\begin{aligned}
 & A_i P A_j \text{ (} A_i \text{ outranks } A_j \text{) iff } \phi(A_i) > \phi(A_j) \\
 & A_i I A_j \text{ (} A_i \text{ is indifferent with } A_j \text{) iff } \phi(A_i) = \phi(A_j).
 \end{aligned}$$

CHAPTER 4: FINANCIAL PERFORMANCE MEASUREMENT OF ISLAMIC BANKS WITH THE MULTIMOORA METHOD

The growth of the country's economy depends on the growth of the financial sector. In this context, priority should be given to the banking sector in order to ensure sustainability in the financial sector. Therefore, the smooth and efficient functioning of the banking sector helps reduce the risk of an economy collapsing. The banking sector is at the center of the development of the country's economy due to its role as an intermediary in funds and the distribution of resources. For the further development of the banking sector, the inclusion of people who want to avoid interest, especially because of their beliefs, into the financial system is ensured through "Islamic Banks". The participation of Islamic banks in the banking sector is increasing day by day and they are preferred by all kinds of people. Considering the current rising trend of Islamic banks, their financial performance is also among the interesting subjects.

In this chapter, we will study the practical side and the application of the standard in evaluating the financial performance of a group of Islamic banks in (Turkey and the Gulf Cooperation Council countries) during the time periods for the year 2020 based on the method of financial ratios used in the field of performance evaluation. Where the financial performance of the banks under study is evaluated, presented, analyzed and interpreted, and then the performance and financial conditions of these banks are evaluated during the mentioned periods and the results are determined in order to obtain the arrangement and sequence of those banks in terms of financial performance and access to the final results by analyzing the results.

4.1. PURPOSE AND IMPORTANCE OF THE RESEARCH

Islamic banks are institutions that carry out their banking services with the focus of interest-free finance and whose service principles consist of interest-free finance. Basic functions of Islamic banks; is to collect funds and make the funds they collect available to individuals or organizations in accordance with the rules of Islam. The aim of this thesis study; It is the measurement of the financial performance of Islamic banks operating in Turkey and the Gulf Cooperation Council Countries with the MULTIMOORA method,

which is one of the Multi-Criteria Decision-Making Techniques (MCDM). For this purpose, financial performance ranking of Islamic banks was made by making financial performance analysis and determining which Islamic bank has higher financial performance.

Islamic banks, which are preferred by people who want to stay away from interest because of their beliefs, attract the attention of people from all walks of life due to their new financial products. In line with these developments, the increasing share of Islamic banks in the sector creates an interesting population for researchers. In this respect, it is important to measure and rank the financial performance of an Islamic bank within a group of Islamic banks. Measuring and ranking the financial performances of Islamic banks operating in Turkey and Gulf Cooperation Council Countries makes this study important in the light of all these evaluations.

Islamic banks have acquired a global character in their transactions and products, and have become a magnet for many investors, which made them affected by various changes at the local and international levels. Therefore, measuring the financial performance of Islamic banks is an urgent necessity for researchers to delve into this field, especially after the occurrence of the global financial crisis known as the mortgage crisis in (2007-2008), with the aim of evaluating the efficiency and effectiveness of the financial performance of Islamic banks, and thus determining the solidity and stability of the banking system from On the one hand, in light of the financial crises, and the extent of its contribution to the stability of the local and global economy on the other hand, and

The importance of the study lies in the importance of the topic, which is the evaluation of financial performance, as the performance evaluation process is an essential and important stage. Because administrators and analysts neglect performance evaluation processes, or rely on random measurement, it may bring them close to failure, so one of the main purposes of research

1. Recognizing the indicators of evaluating the performance of Islamic banks, and their suitability in the current environment through the application of the MULTIMOORA standard.
2. Attempting to identify how the information contained in the financial statements is used in evaluating the performance of banks by studying the case of Islamic banks.

3. Choosing and determining the appropriate financial indicators and ratios to evaluate the financial performance of these banks.
4. Evaluating the financial performance of Islamic banks operating in Turkey and Islamic banks in the Gulf Cooperation Council countries.
5. Ranking the banks according to the performance evaluation.

4.2. SCOPE AND LIMITATIONS OF THE STUDY

Islamic banking, which is described as interest-free banking, continues to maintain its rapid growth trend in Turkey and the World Finance Sector in recent years when compared to traditional banking. This growth indicates that the financial system has a tendency towards the Interest Free (Islamic) Financial System. The Islamic banking sector is different from the other banking sector. However, all banks compete with each other in order to survive and to be affected by the crises at a minimum level. As a result of competition, some banks continue to exist, while some banks may come to the point of bankruptcy. For this reason, performance measurement, in other words, with the concept of the banking sector, financial performance measurement is very important for banks in order to compete. Within the scope of this study, the financial performances of Islamic banks operating in Turkey and the Gulf Cooperation Council Countries were measured according to the MULTI-MOORA method and their performance ranking was made.

The Gulf Cooperation Council (GCC) was established in Abu Dhabi on May 25, 1981 with the participation of its members, Saudi Arabia, Bahrain, United Arab Emirates (UAE), Oman, Kuwait and Qatar. The main reason for the emergence of the GCC idea in 1981 is the unrest aroused in the region by the Iranian Revolution and the Iran-Iraq War. Since 2019, Dr. Nayef al HAJRAF conducts it.

Council; It is a regional organization that brings together the countries that have a coast on the Persian Gulf and have common historical, geographical, cultural, religious and social characteristics. It aims to ensure integration among member countries, to create a regional power by creating similar regulations in the economic and financial affairs, trade, customs and communication, education and culture, social and health affairs, information and tourism, legal and administrative affairs of the member countries. Other goals include promoting scientific and technological progress in the fields of industry, mining, agriculture,

water and animal resources, conducting scientific research, establishing joint ventures and increasing private sector cooperation for the benefit of the public. Islamic banks operating in the countries in the Council are listed in the table below.

Table 4.1. Islamic Commercial Banks in Bahrain

Banks	% of Sharia Compliant Assets to Total Assets
Ahli United Bank	Islamic Windows (42.58)
Ithmaar Bank	Full Islamic Bank
Al Salaam Bank	Full Islamic Bank
Bahrein Islamic Bank	Full Islamic Bank
Al Baraka Islamic Bank	Full Islamic Bank
Khaleej Commercial Bank	Full Islamic Bank
ABC Islamic Bank	Full Islamic Bank
BMI (BankMuscat International Bahrain)	Islamic Windows (93.02) (FOS)
Eskan Bank	Islamic Windows (39.32)
Bank of Bahrain and Kuwait (BBK)	Islamic Windows (3.37)
Family Bank	Full Islamic Bank

Reference: The Banker (November, 2016).

There are 7 full Islamic Banks and 4 Islamic Windows banks operating in Bahrain. In the research, 2020 financial data of “Al Salaam Bank” and “Khaleej Commercial Bank” operating as full Islamic Bank were used.

Table 4.2. Islamic Commercial Banks in Kuwait

Banks	% of Sharia Compliant Assets to Total Assets
Kuwait Finance House	Full Islamic Bank
Ahli United Bank Kuwait	Full Islamic Bank
Boubyan Bank	Full Islamic Bank
Kuwait International Bank	Full Islamic Bank
Warba Bank	Full Islamic Bank

Reference: The Banker (November, 2016).

There are 5 full Islamic Banks operating in Kuwait. In the research, the financial data of 2020 belonging to all of these banks were used.

Table 4.3. Islamic Commercial Banks in Oman

Banks	% of Sharia Compliant Assets to Total Assets
Bank Muscat	Islamic Windows (6.12)
Nizwa Bank	Full Islamic Bank
Bankdhofar	Islamic Windows (8.33)
Bank Al Izz	Full Islamic Bank
National Bank of Oman (Muzn)	Islamic Windows (3.54)
Bank Sohar	Islamic Windows (4.74)
Oman Arab Bank	Islamic Windows (4.74)

Reference: The Banker (November, 2016).

There are 2 full Islamic Banks and 5 Islamic Windows banks operating in Oman. In the research, the financial data of the year 2020 of "Nizwa Bank", which operates as a full Islamic Bank, was used.

Table 4.4. Islamic Commercial Banks in UAE

Banks	% of Sharia Compliant Assets to Total Assets
Dubai Islamic Bank	Full Islamic Bank
Abu Dhabi Islamic Bank	Full Islamic Bank
Emirates Islamic Bank	Full Islamic Bank
Emirates NBD	Islamic Windows (15.85)
Al Hilal Bank (The Crescent Bank)	Full Islamic Bank
Noor Bank	Full Islamic Bank
Mashreq Bank	Islamic Windows (34.40)
Sharjah Islamic Bank	Full Islamic Bank
Abu Dhabi Commercial Bank	Islamic Windows (8.05)
Ajman Bank	Full Islamic Bank
National Bank of Abu Dubai	Islamic Windows (2.84)

Reference: The Banker (November, 2016).

There are 7 full Islamic Banks and 4 Islamic Windows banks operating in UAE. In the research, the financial data of 2020 of "Dubai Islamic Bank" and "Emirates Islamic Bank" operating as full Islamic Bank were used.

Table 4.5. Islamic Commercial Banks in Qatar

Banks	% of Sharia Compliant Assets to Total Assets
Qatar Islamic Bank	Full Islamic Bank
Masraf Al Rayan / Al Rayan Bank	Full Islamic Bank
Qatar First Bank	Full Islamic Bank
Qatar International Islamic Bank	Full Islamic Bank

Reference: The Banker (November, 2016).

There are 4 full Islamic Banks operating in Qatar. In the research, 2020 financial data of "Qatar International Islamic Bank", "Qatar Islamic Bank" and "Masraf Al Rayan" operating as full Islamic Bank were used.

Table 4.6. Islamic Commercial Banks in Saudi Arabia

Banks	% of Sharia Compliant Assets to Total Assets
Al Rajhi Bank	Full Islamic Bank
National Commercial Bank	Islamic Windows (45.73)
Saudi British Bank (SABB)	Islamic Windows (52.75)
Alinma Bank	Full Islamic Bank
Arab National Bank	Islamic Windows (43.13)
Samba Financial Group	Islamic Windows (30.66)
Riyad Bank	Islamic Windows (31.90)
Banque Saudi Fransi	Islamic Windows (38.54)
Bank Al Jazira	Full Islamic Bank
Bank Albilad	Full Islamic Bank
Saudi Hollandi Bank	Islamic Windows (38.86)
Saudi Investment Bank	Islamic Windows (34.82)
Islamic Development Bank	Full Islamic Bank

Reference: The Banker (November, 2016).

There are 5 full Islamic Banks and 8 Islamic Windows banks operating in Saudi Arabia. In the research, the financial data of 2020 of “Bank Albilad”, “Al Rajhi Bank”, “Bank Al Jazira” and “Alinma Bank” operating as full Islamic Bank were used.

Table 4.7. Islamic Commercial Banks in Turkey

Banks	% of Sharia Compliant Assets to Total Assets
Albaraka Turk Participation Bank	Full Islamic Bank
Kuveyt Turk Participation Bank	Full Islamic Bank
Türkiye Emlak Participation Bank	Full Islamic Bank
Türkiye Finans Participation Bank	Full Islamic Bank
Vakıf Participation Bank	Full Islamic Bank
Ziraat Participation Bank	Full Islamic Bank

Reference: TKBB,2021.

There are 6 full Islamic Banks operating in Turkey. In the research, the financial data of 2020 belonging to all of these banks were used.

The banks belonging to the Gulf Arab Countries Cooperation Council member countries and Turkey used in the research are listed in the table below.

Table 4.8. Islamic Banks Used In The Research

Gulf Arab Countries Cooperation Council (GCC)	Türkiye
A1 - Saudi Arabia /Bank Albilad	T1 - Albaraka Turk Participation Bank
A2 - Saudi Arabia /Al Rajhi Bank	T2 - Kuveyt Turk Participation Bank
A3 - Saudi Arabia /Bank Al Jazira	T3 - Türkiye Emlak Participation Bank
A4 - Saudi Arabia /Alinma Bank	T4 - Türkiye Finans Participation Bank
A5 - Oman/ Nizwa Bank	T5 - Vakıf Participation Bank
A6 - UAE / Dubai Islamic Bank	T6 - Ziraat Participation Bank
A7 - UAE / Emirates Islamic Bank	
A8 - Kuwait / Ahli United Bank	
A9 - Kuwait / Kuwait International Bank	
A10 - Kuwait /Boubyan Bank	
A11 - Kuwait /Warba Bank	
A12 - Kuwait /Kuwait Finance House	
A13 - Qatar /Qatar International Islamic Bank	
A14 - Qatar /Masraf Al Rayan	
A15 - Qatar /Qatar Islamic Bank	
A16 - Bahrain /Khaleeji Commercial Bank	
A17 - Bahrain /Al Salam Bank	

There are 30 full Islamic Banks operating in the member countries of the Gulf Cooperation Council. Within the scope of the research, 2020 financial data of 17 full Islamic Banks were used. Other 13 full Islamic Banks reported losses in 2020. For this reason, it was not included in the research. This is the first limitation of the study. The second limitation of the research is the use of financial data for 2020, especially for some banks operating in the Gulf Arab Countries Cooperation Council member states, since the financial data of the previous years could not be accessed. The third limitation of the study is the inability to make comparisons due to the fact that there are some differences in the calculation of the financial ratios of Islamic banks operating in Turkey and the member countries of the Gulf Arab Countries Cooperation Council.

4.3. LITERATURE REVIEW

Although Muslims have employed Islamic financial goods since the time of Prophet Muhammad (PBUH), it was not until the mid-twentieth century that the first study on Islamic finance was published. Several Muslim and non-Muslim experts have studied the emergence and phenomenon of Islamic banking since then. Islamic banking is a part of an Islamic economic system that aims to produce a Shariah-compliant fair and just society. Individuals are encouraged to engage in economic pursuits in order to live a happy life, according to Islam. In order to promote social justice and equality, the consumption of Riba (Interest), gambling, and Gharar is severely prohibited under the Islamic economic paradigm. Furthermore, unlike mainstream Western notions of financial performance, which evaluate success based on the amount of money made, Shariah views this as a general "abuse of society." Islamic fundamentals, On the other hand, they are in line with Shariah principles, using socioeconomic measures to enhance society's growth and development while evaluating performance.

According to the review of the literature, quantitative indicators such as financial indicators are mostly used to depict banking performance. When we look at the factors that influence banking performance, we see a similar pattern. Indeed, the research mostly uses quantitative variables, either internal or external, to explain banking performance. Many studies have been conducted on the various drivers of bank performance, such as profitability, growth, efficiency, liquidity, credit risk performance, and solvency. In addition, various variables and statistical approaches were used in the analysis, with the results aimed at performance evaluation. Profitability, on the other hand, is the ultimate goal of every bank, hence various scholars and studies have looked into using it as a key measure of bank performance. Prior research on bank profitability and performance has focused on the impact of factors such as firm-specific and macroeconomic variables as key predictors of bank profitability. A number of previous survey-based studies have looked into Islamic banking from a variety of angles. However, the empirical research presented there uses a variety of approaches and reaches varied findings. The important and most relevant research on Islamic banking and finance undertaken in the last few years, focus on selection criteria, performance and development, service quality and efficiency, and global perceptions of Islamic banking

and finance.

Al-Fadhli (1998) examines the performance of 118 Islamic banks in Kuwait using financial indicators and compares the results to those of conventional banks. The study employs three key tools: a financial examination of each bank using accounting ratios; customer satisfaction surveys; and senior management questionnaires and interviews. In terms of performance and evaluation, the findings show that Islamic banks are on par with mainstream banks. The study reveals that Islamic banks are exceptionally adaptive in their operations and can overcome most hurdles to their success, based on interviews with senior management. The author finds that Kuwaiti Islamic banks have succeeded in developing a viable alternative to traditional banking by offering a genuine and appealing option to customers. (Riaz, 2014: 118).

According to Samad and Hassan (2004) and Safiullah (2007), extensive analyses of Islamic banks performance, there is universal consensus in the literature that Islamic banks outperform regular banks in terms of performance (2010). Hassan et al. (2010) aimed to investigate Islamic banks performance throughout the recent global crisis by examining the influence of the crisis on profitability, credit and asset growth, and external ratings. They came to the conclusion that Islamic banks were influenced differently than conventional banks. Factors connected to the business model of IBs helped reduce the negative impact on profitability in 2008, although shortcomings in risk management methods in some IBs resulted in a higher fall in profitability in 2009 (Al-Gazzar, 2014: 20).

One of the studies also reviewed a number of researches that dealt with the comparison between the performance of Islamic banks and conventional banks, starting from the year 2006 to 2013, with reference to the quantitative and descriptive tools adopted by those studies in analyzing performance, and then the study adopted the use of financial ratios in measuring the performance of the sample banks in Malaysia, which was represented by the indicators of profitability, liquidity and capital adequacy in order to compare the performance between Islamic and conventional banks, and it found that there are significant differences between these banks with regard to profitability, liquidity, capital adequacy, as well as performance risks (Hazzi & AL Kilani, 2013, 133-144).

In his study, Ibrahim (2015) attempts to assess the financial performance of two

Islamic banks in the United Arab Emirates from 2003 to 2007. To measure the performance and draw a comparison between these two banks, other groupings of ratios were applied. Liquidity, profitability, managerial capacity, capital structure, and share performance ratios will be measured using the ratios. The study takes a step further and assesses the two banks' financial stability. The performance was ranked using descriptive statistical analysis, which measured the dispersion and stability of the results. The findings demonstrated that both banks performed admirably over the time period in question. Furthermore, Dubai Islamic bank has lesser liquidity than its competition, yet profitability is substantially higher in Dubai Islamic bank than in Abu Dhabi bank. Dubai Islamic bank has done a better job of managing its operations than Abu Dhabi Islamic bank, but the latter bank is not far behind with a similar capital structure. The four share performance ratios showed that Abu Dhabi Islamic bank outperformed Dubai Islamic bank (Ibrahim, 2015: 93-104).

In order to provide a clear picture of Islamic banks to stakeholders in Tunisia, Daoud & Kammoun (2017) investigated the financial performance of the Islamic banking sectors from 2010 to 2014. The financial situation of the two Islamic banks in Tunisia was evaluated. The most critical financial ratios analysis is used to analyze individual bank performance estimates in profitability, liquidity, risk, and solvency. The survey also looks at each bank's overall stability. The dispersion and variability of these ratios were measured using descriptive statistical techniques to define the performance. During the time period analyzed, the results showed that both banks had a strong financial performance position in the banking business. In comparison to Zitouna bank, al Baraka bank has slightly higher levels of profitability and risk management (Daoud & Kammoun, 2017: 780-789).

Another study, which aimed to measure the performance of Islamic banks in a number of countries, concluded that the performance of Islamic banks is affected by three criteria that are related to the efficiency of the performance of these banks and were represented by the value of capital, which is measured by the return on assets, and the ratio of loans to assets, which has a positive relationship with the performance of the Islamic bank, as well as there are a number of macroeconomic factors that affect the performance of these banks, which are both inflation and the rate of economic growth. (Chokri and Anis, 2018:3).

In a study to examine the impact of Islamic banking on the financial performance of

commercial banks in Nairobi City County, researchers looked at the impact of interest-free transactions on commercial bank financial performance as well as the impact of sharing profit/loss with depositors on commercial bank financial performance. The research was conducted in ten commercial banks with a total sample size of 129 employees. The personnel were divided into two groups: middle-level employees and lower-level employees. The group to whom questionnaires were to be distributed was determined using stratified random sampling. The descriptive survey design was used in this investigation. During the investigation, a questionnaire was used as a research tool. It was determined that Islamic banking has a good and considerable impact on commercial bank financial performance (Odongo, & Muchelule, 2019: 2191-2207).

An Arabic-language study evaluated the performance of Islamic banks compared to conventional banks, using a model CAMEL by comparing the performance of a sample consisting of Al-Rajji Islamic bank in Saudi Arabia and one of the French commercial banks, the Saudi-French bank, it was concluded that the sample banks have high financial solvency and that they have good management. Therefore, these banks were classified as first-class, which reflects the degree of safety enjoyed by these banks. In addition, it was found that Al-Rajhi Bank, despite the nature of its work that is subject to the principles of Islamic law, has outperformed the French bank in several areas, the most important of which was capital adequacy (Hamza & Maryam, 2021: 195-197).

MULTIMOORA is a multi-criteria decision-making technique that is useful to generate a rating by combining the results of the three ternary ranking methods, the Ratio System, the Reference Point Approach, and the Full Multiplicative Form. There is no comprehensive review of research in the Multimoora literature. In this study, we provide a theoretical and practical overview of Multimoora by examination of Multimoora in terms of subordinate ranking methods, ranking aggregation tools, group decision-making, and model combination. We examine Multimoora's developments in light of uncertainty theories, as well as the mathematical formulations of breakthrough models. Multimoora's practical challenges are divided into application sectors that include industries, economics, public services, and environmental policy-making, as well as in financial performance and information and communication technology.

According to Brauers & Zavadskas, (2011) study, which came under the title of the Multimoora optimization used to decide on a bank loan to buy property, Multimoora method was adopted to solve the bank problems related to the bank loan to buy property by using the three approaches which made up the Full Multimoora method. The study concluded that Multimoora present a strong instrument to measure an optimum in economic calculus is composed of a Ratio System, producing dimensionless numbers. In addition, the ratio system creates the opportunity to use its ratios as a starting point for a second approach: a non-subjective Reference Point Theory, the two approaches form a control on each other (Brauers & Zavadskas, 2011: 174-188).

In the study conducted by Şişman & Doğan in 2016, the financial performances of 10 conventional banks traded in BIST stocks between 2014-2016 were evaluated with Fuzzy AHP and Fuzzy MOORA integrated approach. According to the results of the analysis, Akbank was the bank with the highest financial performance, while "TEB" took the last place. On the other hand, another result is that the profitability ratio has a positive effect on financial performance.

In the study conducted by Altunöz in 2017, the financial performances of 12 banks traded in Borsa Istanbul for the years 2007-2016 were evaluated by combining fuzzy MOORA and Fuzzy AHP methods. According to the results of the analysis, in terms of financial performance, "İşbank" took the first place and "ICBCT" took the last place. In addition, it has been concluded that the financial performance of the bank, which has high profitability ratios, liquidity ratios, capital and balance sheet ratios, can also be high.

In the study conducted by Ceyhan & Demirci in 2017, 6 financial leasing companies and 8 financial ratios were used in the leasing sector in Borsa Istanbul. Ratio Method, Multi-MOORA, Exact Product Form and Reference Point Approach were used as analysis methods.

In the study conducted by Atukalp in 2018, the financial performances of the deposit banks in the Borsa Istanbul Bank Index are examined by using Multi-MOORA, one of the MCDM techniques, by considering the 2010-2016 period. In the study, some financial ratios were determined as criteria for the banks in question and a financial performance analysis was made. As a result of the analysis, it has been determined that Akbank ranks first in terms of financial performance.

In the study conducted by Erdoğan in 2018, the financial performances of participation banks operating in Turkey were analyzed with the Multi-MOORA technique, one of the multi-criteria decision-making techniques, in the period of 2016-2017. As a result of the analysis, it was concluded that Vakıf Katılım Bank ranks first in terms of financial performance.

In the study conducted by Platonova, Asutay, Dixon, & Mohammad in 2018, the relationship between corporate social responsibility (CSR) and financial performance for Islamic banks in the Gulf Cooperation Council (GCC) region was analyzed by analyzing the annual reports of the sampled banks and generating data on CSR. examined. It has been observed that there is a significant positive relationship between the disclosure of CSR and the financial performance of Islamic banks in GCC countries. It also showed that there is a positive correlation between the disclosure of CSR and the future financial performance of Islamic banks. As a result, it is concluded that existing CSR activities potentially carried out by Islamic banks can have a long-term impact on their financial performance.

A 2018 study by Chazi, Khallaf, & Zantout used a comprehensive example of Islamic and non-Islamic banks in the Gulf Cooperation Council (GCC) region in the years 2007-2009, namely the 2008 global financial crisis, which represented a natural stress test. The impact of corporate governance characteristics of ownership structure, concentration, board size, composition, and independence, and the impact of the country's legal system and investor protection on a wide variety of bank performance indicators, including profitability and efficiency, were evaluated. It was concluded that during the 2008 global financial crisis, return on assets and operating income relative to total assets were higher for Islamic banks than for non-Islamic banks in the GCC region, respectively, by 1 and 2.5 percent.

One of the credit rating agencies has conducted the credit rating for a number of companies and countries and used the Multi Mora method in that as it is the most scientific approach in conducting the required rating on a quantitative and structural basis. The study was conducted for all countries of the European continent and based on the data available in 2013 and extrapolated and the results are fully comparable to those of Standard & Poor's credit rating system today. The results were similar to Moody's and Fitch rating agencies and very similar to Standard & Poor's ratings. (Lepkova & Brauers, 2019: 1259-1281).

Karavardar & Çilek (2020) analyzed 2016-2018 period data of participation banks in Turkey with Multi-MOORA method. In empirical analysis, it was observed that the best financial efficiency was provided by Vakıf Katılım (Participation) Bank (Apan & Kayhan, 2020, 231).

The current study, through a literatures review of what was available to the researcher from studies on the performance of Islamic banks, concluded that the previous studies dealt with performance within multiple axes that can be summarized as follows:

1. Discussion and analysis of performance within the historical context since the emergence of Islamic banks in their modern form in the last century, where they focused on the activities that these banks do and the profits they achieve as a result of their speculation, Murabaha and participation and other activities that characterize these banks.
2. It deals with the performance of Islamic banks through a number of measures of efficiency and productivity, and by calculating the financial ratios as performance criteria, which give a clear vision of the nature of performance in those banks.
3. Performance analysis by comparing the performance of Islamic banks with conventional and comprehensive commercial banks that do not adopt the foundations of Islamic Sharia in their banking operations and activities.
4. Studying the performance of Islamic banks in periods of financial and economic crises that directly or indirectly affect their performance.
5. Studying the performance of Islamic banks through questionnaire surveys of the opinions of customers and dealers with those banks, which aims to measure performance by identifying the levels of satisfaction of those dealing with them.
6. The previous studies differed in terms of the methods of studying the performance of Islamic banks, and they varied between descriptive methods in the use of questionnaires and opinion polls, and between quantitative methods such as using financial ratios and measuring performance by using methods of analysis such as Multimoora and Data Envelope and others.
7. The studies that adopted the Multimoora method in analyzing the financial aspects of banks in general and Islamic banks in particular were characterized by a kind of

scarcity, because most of the previous studies adopted traditional measures to identify performance measurement for Islamic and traditional banks. Islamic by adopting the Multimoora method.

4.4. RESEARCH METHOD

It has been taken into account when selecting the study tools, that the latter are commensurate with the nature of the subject and the data to be obtained, in order to reach the various aspects of evaluation of the activities of the studied banks and the weaknesses and strengths in their financial operations, which in turn help in the process of evaluating financial performance and reaching results honest and accurate

Therefore, in order to achieve the objectives of the study, which is to choose the best banks in terms of performance, the MULTIMOORA criterion was relied on as it helps financial analysis; As the analysis of financial statements is an important tool that is widely used among the concerned parties (management, creditors, investors...) with the aim of analyzing and evaluating the historical and current financial position, as well as forecasting the financial performance of the bank in the coming years.

The financial analysis process can be considered as a stage of performance evaluation in which the relationship and correlation between the various items and components of the financial statements are analyzed and evaluated to obtain a better understanding of the bank's position and performance.

Since financial information is the basis in the process of measuring and evaluating performance, its periodic disclosure is a necessary and even one of the tasks imposed by the laws of each country, and it is presented within a set of financial statements (balance sheet, income statement, cash flow statement...), The financial analyst has to study and analyze it by means of various quantitative indicators that show the relationship between the various items of banking activities, which in turn enables to conduct comparative operations of banking performance to judge the performance of the banks under study, analyze the causes of deviations, if any, and then correct them.

Since the subject of the study is related to financial performance, it has been relied mainly on the analysis of financial indicators and ratios that are usually used in measuring

and evaluating the performance of banks, after studying the financial statements of each bank during the study period and determining the ratios related to the research.

4.4.1. MULTIMOORA Method

The MOORA method gave birth to the MULTIMOORA method. The new technique was named MULTIMOORA after Brauers and Zavadskas (2010) introduced the complete multiplicative form to the MOORA. The MOORA technique was created by Brauers and Zavadskas and is one of the multi objective optimization methods (2006). It necessitates a matrix of possible solutions to the objectives. Then a ratio system is created, in which each alternative's reaction to an aim is compared to a denominator, which represents all options for that objective. Under the term MOORA, there are two alternative methods: the ratio system and the reference point techniques (Brauers 2013).

In the MOORA method, all those affected should be taken into account, the data should be up-to-date, all relationships between alternatives and criteria should be taken into account, and should be objective. Final evaluation should be done using different MOORA techniques.

MOORA techniques:

- MOORA-Ratio Method,
- MOORA Reference Point Approach,
- MOORA- The Full Multiplicative Form and
- MULTIMOORA

MULTIMOORA is not an independent MCDM (multi-criteria decision making) problem solving method, but is based on the evaluation of other MOORA techniques and the ranking of the dominant methods. The implementation steps of the MULTIMOORA method are described in detail in Chapter 3. This chapter contains the findings.

4.4.2. Financial Ratios Used to Measure Financial Performance

The use of financial ratios and indicators in evaluating the performance of institutions in general, and banks, including Islamic banks - in particular - is familiar and widespread, to the extent that it can be said that the evaluation process cannot be carried out without them.

The researchers developed a set of criteria that touch on various aspects of

performance, including the financial performance of Islamic banks, provided that each bank chooses criteria that fit with its nature. The financial ratios used in the research are listed in the Table 4.9.

Table 4.9. Financial Ratios Used In The Research

Financial Indicators	Code	Name of Ratio	Formulation of Ratio
Capital Adequacy	K1	Capital Adequacy	Equity/ (Credit+Market+Operational Risk Basel)
	K2	Equity To Assets	Total Equity/Total Assets
leverage ratio	K3	The Debt To Equity	Total Liabilities/Total Equity
	K4	Debt To Assets	Total Liabilities/Total Assets
Assets Quality	K5	Financial Assets To Assets	Financial Assets/Total Assets
Liquidity	K6	Liquid Assets To Assets	Liquid Assets/Total Assets
	K7	Current Ratio	Current Assets/Current Liabilities
Profitability	K8	Return To Assets	Net Profit (Loss)/Total Assets
	K9	Return To Equity	Net Profit (Loss)/Total Equity

4.5. FINDINGS OF THE RESEARCH

In the MOORA method, all those affected should be taken into account, the data should be up-to-date, all relationships between alternatives and criteria should be taken into account, and should be objective. Final evaluation should be done using different MOORA techniques.

MOORA techniques:

- MOORA-Ratio Method,
- MOORA Reference Point Approach,
- MOORA- The Full Multiplicative Form and
- MULTIMOORA.

4.5.1. MOORA-Ratio Method

Step 1: Creating the decision matrix

The first step of the analysis made with the MULTIMOORA method is the creation of the decision matrix. The most important point to be considered while creating the decision matrix is that the banks whose financial performances are to be listed should be in the rows,

and the financial ratios representing the financial indicators are in the columns. In the part of the research related to Turkey, there are 6 banks (alternative) and 9 financial ratios (criteria). In the section related to GCC, there are 17 banks (alternative) and 9 financial ratios (criteria). Therefore, the 6x9 decision matrix for Turkey is in Table 4.10 and the 17x9 size decision matrix for GCC is in Table 4.11.

Table 4.10. Decision Matrix For Islamic Banks In Turkey

BANKS	K1	K2	K3	K4	K5	K6	K7	K8	K9
T1	0.1497	0.1537	6.5081	0.1632	0.9666	0.4799	0.6444	0.0037	0.0239
T2	0.2126	0.1081	9.2495	0.1075	0.9134	0.4000	0.4986	0.0092	0.0850
T3	0.2830	0.1717	5.8250	0.4038	0.9742	0.3117	0.5442	0.0040	0.0230
T4	0.1664	0.1526	6.5544	0.1868	0.9659	0.4867	0.6901	0.0083	0.0544
T5	0.1847	0.1820	5.4953	0.1337	0.9812	0.3779	0.5077	0.0125	0.0689
T6	0.1480	0.1319	7.5826	0.1613	0.9872	0.3414	0.4430	0.0106	0.0804

Table 4.11. Decision Matrix For Islamic Banks In GCC

BANKS	K1	K2	K3	K4	K5	K6	K7	K8	K9
A1	0,1795	0,1121	7,9227	0,8879	0,9704	0,0828	0,0932	0,0141	0,1257
A2	0,1908	0,1240	7,0667	0,8760	0,9641	0,1621	0,1851	0,0226	0,1823
A3	0,2362	0,1234	7,1032	0,8766	0,9806	0,0616	0,0703	0,0004	0,0030
A4	0,1900	0,1554	5,4352	0,8446	0,9780	0,0807	0,0955	0,0125	0,0807
A5	0,1368	0,1324	4,2613	0,5641	0,9826	0,0671	0,1189	0,0092	0,0693
A6	0,1200	0,1490	5,7135	0,8510	0,9604	0,1231	0,1447	0,0095	0,0641
A7	0,1805	0,1212	7,2499	0,8788	0,9675	0,1946	0,2214	0,0077	0,0635
A8	0,1610	0,1257	6,9564	0,8743	0,9591	0,1900	0,2173	0,0121	0,0966
A9	0,2201	0,1258	6,9519	0,8742	0,9816	0,1897	0,2169	0,0000	0,0003
A10	0,1350	0,0974	9,2710	0,9026	0,9788	0,1249	0,1383	0,0052	0,0535
A11	0,1694	0,0806	11,4075	0,9194	0,9877	0,1349	0,1468	0,0016	0,0201
A12	0,1753	0,0977	9,2324	0,9023	0,9539	0,2723	0,3018	0,0086	0,0877
A13	0,1655	0,1358	2,9582	0,4016	0,9903	0,2167	0,5395	0,0153	0,1127
A14	0,2031	0,1205	3,1591	0,3806	0,9948	0,1105	0,2902	0,0180	0,1496
A15	0,1940	0,1331	2,1728	0,2892	0,9841	0,0876	0,3029	0,0173	0,1303
A16	0,2031	0,1497	2,8823	0,4315	0,9654	0,0992	0,2299	0,0078	0,0520
A17	0,2646	0,1243	2,6845	0,3338	0,9364	0,3181	0,9530	0,0040	0,0324

Step 2: Performing the normalization process

It is calculated by dividing each criterion by the square root of the sum of the squares of the values in its column. The normalized decision matrices of Islamic banks in Turkey and

the GCC are given in Table 4.12 and Table 4.13, respectively.

Table 4.12. Normalized Decision Matrix For Islamic Banks In Turkey

BANKS	K1	K2	K3	K4	K5	K6	K7	K8	K9
T1	0.02241	0.02361	42.35514	0.02663	0.93436	0.23026	0.41530	0.00001	0.00057
T2	0.04520	0.01169	85.55367	0.01155	0.83434	0.15999	0.24859	0.00008	0.00723
T3	0.08009	0.02947	33.93114	0.16309	0.94907	0.09713	0.29614	0.00002	0.00053
T4	0.02769	0.02328	42.95961	0.03491	0.93301	0.23692	0.47628	0.00007	0.00296
T5	0.03411	0.03311	30.19816	0.01789	0.96268	0.14282	0.25779	0.00016	0.00475
T6	0.02190	0.01739	57.49636	0.02601	0.97450	0.11659	0.19628	0.00011	0.00647
Sum of squarer	0.23140	0.13855	292.49409	0.28007	5.58796	0.98370	1.89037	0.00045	0.02252
squar ratio	0.48105	0.37223	17.10246	0.52921	2.36389	0.99182	1.37491	0.02127	0.15007

Table 4.13. Normalized Decision Matrix For Islamic Banks In GCC

BANKS	K1	K2	K3	K4	K5	K6	K7	K8	K9
A1	0,03222	0,01256	62,76862	0,78841	0,94174	0,00685	0,00869	0,00020	0,01579
A2	0,03640	0,01537	49,93827	0,76743	0,92957	0,02629	0,03426	0,00051	0,03324
A3	0,05579	0,01523	50,45553	0,76841	0,96163	0,00380	0,00494	0,00000	0,00001
A4	0,03610	0,02415	29,54086	0,71336	0,95655	0,00651	0,00912	0,00016	0,00651
A5	0,01871	0,01753	18,15876	0,31824	0,96554	0,00450	0,01415	0,00008	0,00480
A6	0,01440	0,02219	32,64426	0,72428	0,92234	0,01516	0,02093	0,00009	0,00410
A7	0,03257	0,01469	52,56047	0,77226	0,93605	0,03786	0,04903	0,00006	0,00403
A8	0,02592	0,01580	48,39119	0,76443	0,91982	0,03611	0,04723	0,00015	0,00933
A9	0,04844	0,01581	48,32850	0,76430	0,96358	0,03597	0,04707	0,00000	0,00000
A10	0,01823	0,00948	85,95159	0,81476	0,95796	0,01559	0,01913	0,00003	0,00287
A11	0,02870	0,00650	130,13005	0,84530	0,97556	0,01820	0,02154	0,00000	0,00040
A12	0,03073	0,00955	85,23694	0,81409	0,90995	0,07415	0,09109	0,00007	0,00769
A13	0,02739	0,01843	8,75090	0,16127	0,98072	0,04694	0,29108	0,00023	0,01269
A14	0,04125	0,01452	9,97970	0,14486	0,98957	0,01220	0,08423	0,00032	0,02238
A15	0,03764	0,01771	4,72098	0,08363	0,96849	0,00767	0,09172	0,00030	0,01698
A16	0,04125	0,02241	8,30764	0,18618	0,93208	0,00984	0,05285	0,00006	0,00270
A17	0,07001	0,01546	7,20679	0,11141	0,87689	0,10119	0,90823	0,00002	0,00105
Sum of squarer	0,59575	0,26738	733,07105	9,54263	16,08804	0,45885	1,79529	0,00229	0,14458
squar ratio	0,77185	0,51709	27,07528	3,08911	4,01099	0,67738	1,33988	0,04783	0,38024

Step 3: Taking the difference of the maximum and minimum value sums and

Step 4: Ranking

Normalized decision matrix max. and min. values are determined and “ y_i ” value is determined by subtracting the sum of the criteria desired to be minimum from the sum of the criteria desired to be maximum for each alternative. The ratio method matrix is given in Table 4.14 and Table 4.15.

Tablo 4.14. Ranking of Islamic Banks in Turkey by MOORA-Ratio Method

	K1	K2	K3	K4	K5	K6	K7	K8	K9	yi	rank
	max	max	min	max	min	max	max	max	max		
T1	0.311	0.413	0.381	0.308	0.409	0.484	0.469	0.173	0.159	1.528	6
T2	0.442	0.290	0.541	0.203	0.386	0.403	0.363	0.432	0.567	1.773	5
T3	0.588	0.461	0.341	0.763	0.412	0.314	0.396	0.186	0.153	2.109	2
T4	0.346	0.410	0.383	0.353	0.409	0.491	0.502	0.390	0.363	2.063	3
T5	0.384	0.489	0.321	0.253	0.415	0.381	0.369	0.590	0.459	2.189	1
T6	0.308	0.354	0.443	0.305	0.418	0.344	0.322	0.499	0.536	1.807	4

According to the MOORA-Ratio method, the financial performance ranking of Islamic banks in Turkey is as follows.

1. Vakıf Participation Bank
2. Türkiye Emlak Participation Bank
3. Türkiye Finans Participation Bank
4. Ziraat Participation Bank
5. Kuveyt Turk Participation Bank
6. Albaraka Turk Participation Bank

Table 4.15. Ranking of Islamic Banks in GCC by MOORA-Ratio Method

	K1	K2	K3	K4	K5	K6	K7	K8	K9	yi	rank
	max	max	min	max	min	max	max	max	max		
A1	0,2326	0,2167	0,2926	0,2874	0,2419	0,1222	0,0696	0,2945	0,3305	1,0189	10
A2	0,2472	0,2397	0,2610	0,2836	0,2404	0,2394	0,1381	0,4725	0,4795	1,5986	2
A3	0,3060	0,2387	0,2624	0,2838	0,2445	0,0910	0,0525	0,0077	0,0078	0,4805	16
A4	0,2462	0,3005	0,2007	0,2734	0,2438	0,1191	0,0713	0,2621	0,2122	1,0402	8
A5	0,1772	0,2560	0,1574	0,1826	0,2450	0,0991	0,0888	0,1918	0,1823	0,7754	13
A6	0,1555	0,2881	0,2110	0,2755	0,2394	0,1818	0,1080	0,1995	0,1685	0,9263	12
A7	0,2338	0,2344	0,2678	0,2845	0,2412	0,2873	0,1653	0,1610	0,1671	1,0243	9
A8	0,2086	0,2431	0,2569	0,2830	0,2391	0,2805	0,1622	0,2538	0,2540	1,1892	6
A9	0,2852	0,2432	0,2568	0,2830	0,2447	0,2800	0,1619	0,0009	0,0009	0,7536	14
A10	0,1749	0,1883	0,3424	0,2922	0,2440	0,1843	0,1032	0,1090	0,1408	0,6062	15
A11	0,2195	0,1559	0,4213	0,2976	0,2462	0,1992	0,1095	0,0339	0,0529	0,4009	17
A12	0,2271	0,1890	0,3410	0,2921	0,2378	0,4020	0,2253	0,1791	0,2306	1,1663	7
A13	0,2144	0,2625	0,1093	0,1300	0,2469	0,3199	0,4027	0,3197	0,2963	1,5893	3
A14	0,2631	0,2330	0,1167	0,1232	0,2480	0,1631	0,2166	0,3768	0,3934	1,4046	4
A15	0,2513	0,2574	0,0802	0,0936	0,2454	0,1293	0,2260	0,3626	0,3427	1,3374	5
A16	0,2631	0,2895	0,1065	0,1397	0,2407	0,1464	0,1716	0,1627	0,1367	0,9626	11
A17	0,3428	0,2405	0,0992	0,1081	0,2335	0,4696	0,7113	0,0843	0,0853	1,7092	1

The financial performance ranking of Islamic banks in the GCC according to the MOORA-Ratio method is as follows.

1. Bahrain /Al Salam Bank
2. Saudi Arabia /Al Rajhi Bank
3. Qatar /Qatar International Islamic Bank
4. Qatar /Masraf Al Rayan
5. Qatar /Qatar Islamic Bank
6. Kuwait / Ahli United Bank
7. Kuwait /Kuwait Finance House
8. Saudi Arabia /Alinma Bank
9. UAE / Emirates Islamic Bank
10. Saudi Arabia /Bank Albilad
11. Bahrain /Khaleeji Commercial Bank
12. UAE / Dubai Islamic Bank
13. Oman/ Nizwa Bank
14. Kuwait / Kuwait International Bank
15. Kuwait /Boubyan Bank

16. Saudi Arabia /Bank Al Jazira

17. Kuwait /Warba Bank

4.5.2. MOORA Reference Point Approach

From the normalized data obtained with the MOORA Ratio Approach; The maximum value of the alternatives in the case of maximization according to the objectives and the smallest value "r_j" in the case of minimization are chosen as the reference point. Ranking is done from smallest to largest. MOORA Reference Point Approach results are listed in Tables 4.16 and 4.17.

Table 4.16. Ranking of Islamic Banks In Turkey by MOORA Reference Point Approach

	K1	K2	K3	K4	K5	K6	K7	K8	K9	yi	rank
	max	max	min	max	min	max	max	max	max		
	0.5883	0.4889	0.3213	0.7631	0.3864	0.4908	0.5019	0.5897	0.5667		
T1	0.2771	0.0761	0.0592	0.4548	0.0225	0.0070	0.0332	0.4169	0.4073	1.5907	6
T2	0.1463	0.1984	0.2195	0.5600	0.0000	0.0875	0.1393	0.1575	0.0000	1.0696	3
T3	0.0000	0.0277	0.0193	0.0000	0.0257	0.1765	0.1061	0.4039	0.4133	1.0826	4
T4	0.2424	0.0790	0.0619	0.4100	0.0222	0.0000	0.0000	0.1994	0.2040	1.0507	2
T5	0.2043	0.0000	0.0000	0.5104	0.0287	0.1097	0.1327	0.0000	0.1073	1.0358	1
T6	0.2806	0.1346	0.1220	0.4584	0.0312	0.1465	0.1797	0.0910	0.0306	1.1682	5

According to the MOORA Reference Point Approach, the financial performance ranking of Islamic banks in Turkey is as follows:

1. Vakıf Participation Bank As
2. Türkiye Finans Participation Bank As
3. Kuveyt Turk Participation Bank As
4. Türkiye Emlak Participation Bank As
5. Ziraat Participation Bank As
6. Albaraka Turk Participation Bank As

Table 4.17. Ranking of Islamic Banks In GCC by MOORA Reference Point Approach

	K1	K2	K3	K4	K5	K6	K7	K8	K9	yi	rank
	max	max	min	max	min	max	max	max	max		
	0,3428	0,3005	0,0802	0,2976	0,2335	0,4696	0,7113	0,4725	0,4795		
A1	0,1103	0,0838	0,2124	0,0102	0,0085	0,3474	0,6417	0,1780	0,1489	1,2995	7
A2	0,0956	0,0608	0,1808	0,0140	0,0069	0,2302	0,5731	0,0000	0,0000	0,7861	1
A3	0,0368	0,0619	0,1821	0,0139	0,0110	0,3786	0,6588	0,4648	0,4716	1,8933	17
A4	0,0967	0,0000	0,1205	0,0242	0,0104	0,3505	0,6400	0,2104	0,2673	1,4582	10
A5	0,1656	0,0445	0,0771	0,1150	0,0115	0,3705	0,6225	0,2807	0,2972	1,8073	16
A6	0,1873	0,0125	0,1308	0,0221	0,0060	0,2878	0,6033	0,2730	0,3110	1,5603	11
A7	0,1090	0,0661	0,1875	0,0131	0,0077	0,1823	0,5460	0,3115	0,3124	1,3453	8
A8	0,1342	0,0575	0,1767	0,0146	0,0056	0,1891	0,5491	0,2187	0,2254	1,2062	5
A9	0,0577	0,0573	0,1765	0,0146	0,0113	0,1896	0,5493	0,4716	0,4785	1,6309	13
A10	0,1679	0,1122	0,2622	0,0054	0,0106	0,2853	0,6080	0,3635	0,3387	1,6084	12
A11	0,1233	0,1447	0,3411	0,0000	0,0128	0,2704	0,6017	0,4386	0,4266	1,6514	14
A12	0,1157	0,1115	0,2607	0,0055	0,0044	0,0676	0,4860	0,2934	0,2489	1,0635	3
A13	0,1284	0,0380	0,0290	0,1676	0,0134	0,1497	0,3086	0,1528	0,1832	1,0858	4
A14	0,0797	0,0675	0,0364	0,1744	0,0145	0,3065	0,4947	0,0957	0,0860	1,2536	6
A15	0,0915	0,0431	0,0000	0,2040	0,0119	0,3403	0,4852	0,1099	0,1367	1,3988	9
A16	0,0797	0,0110	0,0262	0,1579	0,0072	0,3232	0,5397	0,3098	0,3427	1,7305	15
A17	0,0000	0,0601	0,0189	0,1896	0,0000	0,0000	0,0000	0,3882	0,3942	1,0131	2

According to the MOORA Reference Point Approach, the financial performance ranking of Islamic banks in the GCC is as follows.

1. Saudi Arabia /Al Rajhi Bank
2. Bahrain /Al Salam Bank
3. Kuwait /Kuwait Finance House
4. Qatar /Qatar International Islamic Bank
5. Kuwait / Ahli United Bank
6. Qatar /Masraf Al Rayan
7. Saudi Arabia /Bank Albilad
8. UAE / Emirates Islamic Bank
9. Qatar /Qatar Islamic Bank
10. Saudi Arabia /Alinma Bank
11. UAE / Dubai Islamic Bank
12. Kuwait /Boubyan Bank

13. Kuwait / Kuwait International Bank
14. Kuwait / Warba Bank
15. Bahrain / Khaleeji Commercial Bank
16. Oman/ Nizwa Bank
17. Saudi Arabia /Bank Al Jazira

4.5.3. MOORA- The Full Multiplicative Form (FMF)

In the full product form method, alternatives and criteria in the decision matrix can be associated with each other. The product of the maximum values of the criteria is divided by the product of the minimum values. Thus, a numerical value is reached for each criterion and the obtained values are ordered from largest to smallest. The exact product form method is given in Tables 4.18 and 4.19.

According to MOORA-FMF, the financial performance ranking of Islamic banks in Turkey is as follows.

1. Vakıf Participation Bank
2. Türkiye Finans Participation Bank
3. Ziraat Participation Bank
4. Türkiye Emlak Participation Bank
5. Kuveyt Turk Participation Bank
6. Albaraka Turk Participation Bank

According to MOORA- The Full Multiplicative Form, the financial performance ranking of Islamic banks in the GCC is as follows:

1. Qatar /Qatar International Islamic Bank
2. Saudi Arabia /Al Rajhi Bank
3. Qatar /Masraf Al Rayan
4. Qatar /Qatar Islamic Bank
5. Bahrain /Al Salam Bank
6. Kuwait / Ahli United Bank
7. Kuwait /Kuwait Finance House
8. UAE / Emirates Islamic Bank

9. Bahrain /Khaleeji Commercial Bank

10. Saudi Arabia /Alinma Bank

11. Saudi Arabia /Bank Albilad

12. UAE / Dubai Islamic Bank

13. Oman/ Nizwa Bank

14. Kuwait /Warba Bank

15. Kuwait /Warba Bank

16. Saudi Arabia /Bank Al Jazira

17. Kuwait / Kuwait International Bank

Table 4.18. Ranking of Islamic Banks in Turkey by MOORA- The Full Multiplicative Form Method

	max	max		min		max		min		max		max		max		max		rank
	K1	K2	K1xK2	K3	2'/K3	K4	3'/K4	K5	4'xK5	K6	5'xK6	K7	6'xK7	K8	7'xK8	K9	8'xK9	
	1	2	2'	3	3'	4	4'	5	5'	6	6'	7	7'	8	8'	9	9'	
T1	0,150	0,154	0,023	6,508	0,004	0,967	0,004	0,163	0,0005	0,480	0,000286	0,64443	0,000185	0,00368	6,8E-07	0,02392	1,62E-08	6
T2	0,213	0,108	0,023	9,250	0,002	0,913	0,003	0,107	0,0002	0,400	0,000117	0,49859	5,83E-05	0,00919	5,4E-07	0,08505	4,56E-08	5
T3	0,283	0,172	0,049	5,825	0,008	0,974	0,009	0,404	0,0034	0,312	0,001078	0,54418	0,000586	0,00395	2,3E-06	0,02302	5,34E-08	4
T4	0,166	0,153	0,025	6,554	0,004	0,966	0,004	0,187	0,0007	0,487	0,000365	0,69013	0,000252	0,00830	2,1E-06	0,05443	1,14E-07	2
T5	0,185	0,182	0,034	5,495	0,006	0,981	0,006	0,134	0,0008	0,378	0,000315	0,50773	0,00016	0,01255	2E-06	0,06894	1,38E-07	1
T6	0,148	0,132	0,020	7,583	0,003	0,987	0,003	0,161	0,0004	0,341	0,000144	0,44304	6,36E-05	0,01061	6,7E-07	0,08045	5,43E-08	3

Table 4.19. Ranking of Islamic Banks in GCC by MOORA- The Full Multiplicative Form Method

	max	max		min		max		min		max		max		max		max		
	K1	K2	K1xK2	K3	2'/K3	K4	3'/K4	K5	4'xK5	K6	5'xK6	K7	6'xK7	K8	7'xK8	K9	8'xK9	
	1	2	2'	3	3'	4	4'	5	5'	6	6'	7	7'	8	8'	9	9'	rank
A1	0,1795	0,1121	0,0201	7,9227	0,0025	0,8879	0,0023	0,9704	0,0023	0,0828	0,0002	0,0932	1,793E-05	0,0141	2,525E-07	0,1257	3,173E-08	11
A2	0,1908	0,1240	0,0237	7,0667	0,0033	0,8760	0,0029	0,9641	0,0030	0,1621	0,0005	0,1851	9,127E-05	0,0226	2,063E-06	0,1823	3,761E-07	2
A3	0,2362	0,1234	0,0291	7,1032	0,0041	0,8766	0,0036	0,9806	0,0037	0,0616	0,0002	0,0703	1,589E-05	0,0004	5,824E-09	0,0030	1,73E-11	16
A4	0,1900	0,1554	0,0295	5,4352	0,0054	0,8446	0,0046	0,9780	0,0047	0,0807	0,0004	0,0955	3,615E-05	0,0125	4,532E-07	0,0807	3,656E-08	10
A5	0,1368	0,1324	0,0181	4,2613	0,0042	0,5641	0,0024	0,9826	0,0024	0,0671	0,0002	0,1189	1,947E-05	0,0092	1,787E-07	0,0693	1,238E-08	13
A6	0,1200	0,1490	0,0179	5,7135	0,0031	0,8510	0,0027	0,9604	0,0028	0,1231	0,0003	0,1447	4,939E-05	0,0095	4,713E-07	0,0641	3,019E-08	12
A7	0,1805	0,1212	0,0219	7,2499	0,0030	0,8788	0,0027	0,9675	0,0027	0,1946	0,0005	0,2214	0,0001181	0,0077	9,092E-07	0,0635	5,775E-08	8
A8	0,1610	0,1257	0,0202	6,9564	0,0029	0,8743	0,0025	0,9591	0,0027	0,1900	0,0005	0,2173	0,0001095	0,0121	1,329E-06	0,0966	1,284E-07	6
A9	0,2201	0,1258	0,0277	6,9519	0,0040	0,8742	0,0035	0,9816	0,0035	0,1897	0,0007	0,2169	0,0001459	0,0000	6,406E-09	0,0003	2,236E-12	17
A10	0,1350	0,0974	0,0131	9,2710	0,0014	0,9026	0,0013	0,9788	0,0013	0,1249	0,0002	0,1383	2,258E-05	0,0052	1,177E-07	0,0535	6,299E-09	14
A11	0,1694	0,0806	0,0137	11,4075	0,0012	0,9194	0,0011	0,9877	0,0011	0,1349	0,0002	0,1468	2,206E-05	0,0016	3,576E-08	0,0201	7,193E-10	15
A12	0,1753	0,0977	0,0171	9,2324	0,0019	0,9023	0,0017	0,9539	0,0018	0,2723	0,0005	0,3018	0,0001443	0,0086	1,236E-06	0,0877	1,083E-07	7
A13	0,1655	0,1358	0,0225	2,9582	0,0076	0,4016	0,0031	0,9903	0,0031	0,2167	0,0007	0,5395	0,00036	0,0153	5,506E-06	0,1127	6,203E-07	1
A14	0,2031	0,1205	0,0245	3,1591	0,0077	0,3806	0,0029	0,9948	0,0030	0,1105	0,0003	0,2902	9,5E-05	0,0180	1,712E-06	0,1496	2,562E-07	3
A15	0,1940	0,1331	0,0258	2,1728	0,0119	0,2892	0,0034	0,9841	0,0035	0,0876	0,0003	0,3029	9,263E-05	0,0173	1,607E-06	0,1303	2,094E-07	4
A16	0,2031	0,1497	0,0304	2,8823	0,0105	0,4315	0,0046	0,9654	0,0047	0,0992	0,0005	0,2299	0,0001075	0,0078	8,367E-07	0,0520	4,351E-08	9
A17	0,2646	0,1243	0,0329	2,6845	0,0123	0,3338	0,0041	0,9364	0,0044	0,3181	0,0014	0,9530	0,0013243	0,0040	5,34E-06	0,0324	1,732E-07	5

4.5.4. MULTIMOORA Findings

Ratio method, reference point approach and exact product form can give different results from each other. In the MULTIMOORA technique, the results of these three methods are evaluated together and the common result in at least two shows the financial performance result. The analysis made in this direction is given in Table 4.20 and Table 4.21.

Table 4.20. MULTIMOORA Performance Ranking Results of Islamic Banks in Turkey

	Ratio Method	Reference Point Approach	FMF	MULTI - MOORA
T1 - Albaraka Turk Participation Bank	6	6	6	6
T2 - Kuveyt Turk Participation Bank	5	3	5	5
T3 - Türkiye Emlak Participation Bank	2	4	4	4
T4 - Türkiye Finans Participation Bank	3	2	2	2
T5 - Vakıf Participation Bank	1	1	1	1
T6 - Ziraat Participation Bank	4	5	3	3

According to the MULTIMOORA technique, the financial performance ranking of Islamic banks in Turkey is as follows:

1. Vakıf Participation Bank
2. Türkiye Finans Participation Bank
3. Ziraat Participation Bank
4. Türkiye Emlak Participation Bank
5. Kuveyt Turk Participation Bank
6. Albaraka Turk Participation Bank

Table 4.21. MULTIMOORA Performance Ranking Results of Islamic Banks In GCC

	Ratio Method	Reference Point Approach	FMF	MULTI - MOORA
A1 - Saudi Arabia /Bank Albilad	10	7	11	11
A2 - Saudi Arabia /Al Rajhi Bank	2	1	2	2
A3 - Saudi Arabia /Bank Al Jazira	16	17	16	16
A4 - Saudi Arabia /Alinma Bank	8	10	10	10
A5 - Oman/ Nizwa Bank	13	16	13	13
A6 - UAE / Dubai Islamic Bank	12	11	12	12
A7 - UAE / Emirates Islamic Bank	9	8	8	8
A8 - Kuwait / Ahli United Bank	6	5	6	6
A9 - Kuwait / Kuwait International Bank	14	13	17	17
A10 - Kuwait /Boubyan Bank	15	12	14	14
A11 - Kuwait /Warba Bank	17	14	15	15
A12 - Kuwait /Kuwait Finance House	7	3	7	7
A13 - Qatar /Qatar International Islamic Bank	3	4	1	1
A14 - Qatar /Masraf Al Rayan	4	6	3	3
A15 - Qatar /Qatar Islamic Bank	5	9	4	4
A16 - Bahrain /Khaleeji Commercial Bank	11	15	9	9
A17 - Bahrain /Al Salam Bank	1	2	5	5

The financial performance ranking of Islamic banks in the GCC according to the MULTIMOORA technique is as follows:

1. Qatar /Qatar International Islamic Bank
2. Saudi Arabia /Al Rajhi Bank
3. Qatar /Masraf Al Rayan
4. Qatar /Qatar Islamic Bank
5. Bahrain /Al Salam Bank
6. Kuwait / Ahli United Bank
7. Kuwait /Kuwait Finance House
8. UAE / Emirates Islamic Bank
9. Bahrain /Khaleeji Commercial Bank
10. Saudi Arabia /Alinma Bank
11. Saudi Arabia /Bank Albilad

12. UAE / Dubai Islamic Bank
13. Oman/ Nizwa Bank
14. Kuwait /Boubyan Bank
15. Kuwait /Warba Bank
16. Saudi Arabia /Bank Al Jazira
17. Kuwait / Kuwait International Bank



CONCLUSION

Islamic finance, which has started to appeal to wider masses today, is a sector that takes place in other countries besides Islamic countries and is in a growth trend. Islamic banks, which have an important place in the Islamic finance sector; integrates the idle funds that could not be included in the economy for different reasons into the system within the principles of interest-free banking. In this respect, they created an alternative to traditional banks and ensured the diversification of the traditional banking sector.

Islamic banking was born within the framework of savers' religious sensitivities to interest. Islamic banking; It is a type of banking that evaluates the funds of the savers on the basis of profit and loss sharing instead of interest while fulfilling its banking functions in the light of Islamic principles. Islamic banks, which are similar to commercial banks in terms of their structure, share the profit or loss savings with the depositors by using the funds they provide in commercial and industrial investments, not as interest income.

Islamic banks also have to compete to continue their activities. It is very important to measure financial performance for Islamic banks to compete. Financial performance is mostly done by calculating financial ratios. Accurate data must be collected in order for this measurement to be accurate.

In this study, the Financial performances of Islamic Banks operating in Turkey and Gulf Cooperation Council Countries were evaluated according to the MULTIMOORA technique on the basis of the financial ratios included in the study. The methods of the MOORA technique, which are listed as ratio method, reference point approach and full multiplication form, can produce different results. For this reason, the MULTIMOORA approach, which is based on the principle of making a dominance comparison by evaluating the results of all three approaches together and specifying the same result for at least two approaches for the alternative to be decided, is utilized.

Within the scope of the study, financial ratios of 6 Islamic banks operating in Turkey as of 2020 and 17 Islamic banks operating in GCC were used. The fact that all banks are full Islamic banks is the common feature of the banks selected in the study. A total of 9 financial ratios were used to measure financial performance. These ratios have been calculated using the financial statements of Islamic banks operating in Turkey and the GCC. However,

comparison of the two groups could not be made due to the non-standardization of the financial statements in Turkey and GCC. In addition, due to the fact that Turkey Real Estate Participation Bank started to operate in 2019, financial statements for 2020 were used.

In this study, in order to evaluate the financial performance of Islamic banks operating in Turkey and the GCC, firstly, calculations were made according to the MOORA Ratio Method. Then, the evaluation was made according to the MOORA reference point method. Finally, the calculation was made according to the MOORA full product form. MUTLIMOORA dominance comparison was made by evaluating the results of all three methods together.

According to MULTIMOORA results, the Islamic Bank with the best financial performance for Turkey was determined as Vakıf Katılım Bankası. Other banks, respectively; Türkiye Finans Participation Bank, Ziraat Participation Bank, Turkey Real Estate Participation Bank, Kuveyt Turk Participation Bank and Albaraka Turk Participation Bank. According to the study conducted by Karavardar and Çilek in 2020, Vakıf Katılım Bank was determined as the bank with the best performance in the 2016-2018 period according to MULTIMOORA results.

According to MULTIMOORA results, Islamic Bank with the best financial performance for GCC; Qatar / Qatar International Islamic Bank. Other banks, respectively; Saudi Arabia /Al Rajhi Bank, Qatar /Masraf Al Rayan, Qatar /Qatar Islamic Bank, Bahrain /Al Salam Bank, Kuwait / Ahli United Bank, Kuwait /Kuwait Finance House, Emirates Islamic Bank, Bahrain /Khaleeji Commercial Bank, Saudi Arabia / Allama Bank is Saudi Arabia /Bank Albilad, Dubai Islamic Bank, Oman/ Nizwa Bank, Kuwait /Boubyan Bank, Kuwait /Warba Bank, Saudi Arabia /Bank Al Jazira and Kuwait / Kuwait International Bank. A study in which the financial performance of Islamic banks operating in the GCC is ranked according to the MULTIMOORA method has not been found in the literature. The study contributes to the literature in this respect.

The evaluation made in this study was made using the financial ratios of 2020. It can be thought that different results may emerge when a separate performance evaluation is made for each year. In other words, as a result of the analysis, Islamic banks with high or low performance periodically may have different performances on a yearly basis and also in

future periods. This situation can be addressed in the analyzes to be made in this direction. In the analysis of the performance of Islamic banks, the change in the financial ratios discussed may reveal different results. This creates a different perspective for researchers. Starting from this point, different findings can be reached regarding the countries, ratios and periods discussed in future studies or with a change in the analysis technique.



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Supplement

Financial statements and income statements for the year 2020, for most selected banks