Indian Journal of Fundamental and Applied Life Sciences ISSN: 2231– 6345 (Online)
An Open Access, Online International Journal Available at www.cibtech.org/sp.ed/jls/2016/02/jls.htm
2016 Vol. 6 (S3), pp.20-31/Toussi and Rostamiyan
Research Article

RISK AND FINANCING IN ISLAMIC BANKING –AN OVERVIEW IN IRAN'S BANKS AND MALYSIA

Ali, Toussi[1] and Rashed, Rostamiyan[2]
[1]*Department of Economics, University of Kharazmi, Tehran, Iran*
[2]*Department of Insurance Management, University of Kharazmi, Tehran, Iran*
**Author for Correspondence*

ABSTRACT
The Liquidity risk is result of Cash shortage as well as uncertainty. Beside on, the bank market may suffer from cash squeeze and finally lead to exposure high liquidity risk. Because of differntation on liquidity risks and other risks, evaluating and controlling will be hard at this domain. By taking account above factors we can see big role of cash management in banking. There are some financial instruments which would be used for liquidity management which are based on Interest rate. What we have studied in this survey is description of fundamentals of Islamic Banking and it's relationship with Risk management as well as Islamic regulations in banks of Iran and Malaysia which study concludes Islamic banking offer useful methods to risk reduction and management. Islamic Banking system in both of countries operates in same way.

Keywords: *Money and Finance Market, Risk Management, Islamic Banking, Pls, Liquidity*

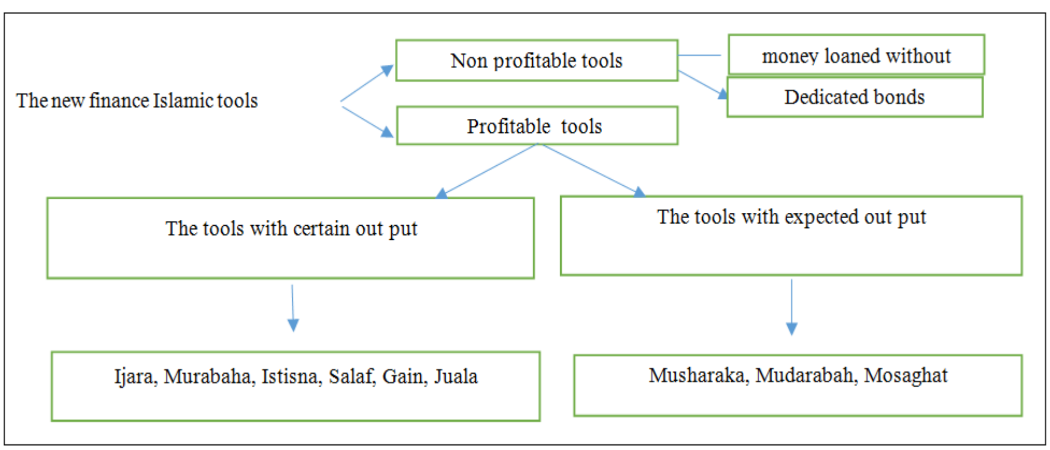
INTRODUCTION
The idea of Islamic banking was first developed in 1950. First Islamic Investment Bank was formed in 1960 in Malaysia and Egypt and Dubai Islamic Bank was founded after that in 1974. So far, according to Ghohof (1999), the number of Islamic banks around the world is more than 100 types (Abdul and Sarker, 1999). As far as Edward has emergence Islamic banking as a kind of invented religions. Islamic banking is part of the broad concept of Islamic economics which combines moral value system and the economic structure together. Because the concepts of ethics and values, Islamic banking is something beyond the simple concept of as banks and financial institutions are managed. The nature of Islamic banking is based on participating. There is one of features that can be noted about this kind of financial system is that all risks that an entity or businessman is facing will be considered and profit and loss will be distributed between the bank and the customer regardless of the amount and payment. Return on Investment Bank is not a function of time and not be pre-determined (Shajari, 1389). Risk defined not predict the likelihood of future researchers. The risk is a consequence of action taken in spite of uncertainty. The Risk means the possibility of a financial or non-financial damage or loss, whether as a result of carrying out an activity. In every area risk can be mention and banks due importance in the economic system are one of the most important areas. The nature of risk in the banking system, due to the number and variety of banking operations, the bank's capital situation and limit its extent, protect the interests of depositors and shareholders of the bank and the interests of depositors and its frequency is quite different from the risk in other economic units (Da Silva and Divino, 2013). In today's world, risk categories are used in all countries and controlling that will be take on account as far as it can follow customer relationship principles and ensure to share holders through applying risk management methods and operations and, finally it can publish them as scheduled (Bakhtiari, 2005). The Islamic banking follows the same purpose as conventional banking world does but there is a difference and it is that banking deals on the Islamic banks is based on Islamic jurisprudence. In general, risk control is process which involves risk assessment and evaluating and it also involves strategic plans to manage risk. Overall, the strategies, including risk transfer to other sectors, avoiding the risk, reducing the negative effects of risk, and accepting some or all of the consequences of a particular risk. Traditional risk control, focused on risk prevention in result of legal and physical causes (such as natural disasters or fires, accidents, deaths and lawsuits). On the other hand, financial risk control focused on those risks which could handle the use of financial and commercial

instruments. Intangible risk control, focuses on human capital risks, such as knowledge, communication and operational processes risk. Regardless of the type of risk control, risk control teams are in all large companies and corporations, and in the absence of formal type, small groups informally use risk control. There is a prioritization process in desirable risk management. At beginning it deals with those risks are on highest probability of loss exposure after that those risks are on low probability of loss exposure will be categorized. In practice, this process may be very difficult and also often balancing those risks that their likelihood of occurrence is high and their unprofitability is low in compare those risks that their occurrence are low and their unprofitability are high may not be handled properly (Akbarian & Dianati, 2006). Due to specific characteristics in the allocation of funding and Sharia obligations, Islamic banking system deals with some risks that can't be handled by traditional risk methods. In the other word, Islamic banking risk management methods should be complied with requirement of the Sharia law and also they can be applicable in this system. We should note that both of the current pattern of non-interest banking also faces risks due to its special features which Some of them are controllable and some other consist common methods which they are not manageable. It is clear that Iran's non-interest banking model need to consider the risks and manage them according to Islamic law. The lack of attention to the risks in the bankingwill cause some unpleasant consequences that even can lead to huge occurrence and may make big losses even for a large bank. Therefore, because of the risks in economic activity and also the big falls special in financial institutions, lead to get more attention to risk in center of the economic institutions. The aim of this study is to examine risk control in Islamic banking according to the principles of Islamic economics. This study includes five parts. The next part of this study will review theoretical fundamental of risk and cash management in view of economical literature. In the other side study will review last surveys and experiences at this domain. The fourth part of study is research findings and the last part involves conclusion.

Theoretical Fundamentals

Islamic Contracts

The Sukuk is the most important Islamic financial instruments which has been released in recent years and has gained considerable popularity and acceptance among Islamic countries, as well as international level. In this section, the definition of Sukuk as well as the most important points will be discussed. The Sukuk are certificates with an equal nominal value which represent payment by the buyer Face value contained therein publisher after the completion of subscription, and the owner of it will have one or a set of assets, interests in property or will be as a stakeholders of a particular investment project or an activity. There are several types for Sokuk and the most important and most common of them includes sukuk, sukuk to rent, salm, Istisna'a, participation, Murabaha and Mudaraba. The sukuk can be divided into two groups that includes shareholders' equity and debt instruments. By taking account above division we can place Sukuk, Ijara, Salm, Estensa and Mobareheh in side of debt instruments and Mushrekah and Mudarebeh will be placed in side of shareholders' equity.



Source: Nisar 2007

It is clear that any kind of activity in interest-free banking system is based on Islamic contracts and the nature of the Sharia rules also will govern the contract deal then the transactions will not be subject to interest themes. A quick look at financing and investment in economic activities of the Islamic banks, shows that investors, banks and depositors regard to their extent of their investments will provide and support financial needs for mentioned activities. In contrast to traditional banking, in non-interest banking, because of the logical connection between the three groups of depositors, banks and borrowers, they can operate in partnership over majority part of economical activities.

Of course, this mode of operation is compatible with Islamic principles. Such dependency in activities can make invincible cohesion and solidarity that is unsurpassed in global banking (Djojosugito, 2007).

Risk of Islamic Contracts

Today, risk and volatility have placed in the spotlight all publishers, investors and even officials and experts of countries. Because of the high importance and impact of risks in the process of financing and issue of securities, we need to identify, calculate and manage the risk. The risks in base of network model are divided into two groups of financial and non-financial risks. The financial risks, are those risks that they can be measure by quantitative measurement (with high accuracy). In contrast, non-financial risks are not measurable or measuring them is very difficult. The researches have shown that, the Islamic securities in respect to financial risk act better than conventional securities and the non-financial risks are divided into several categories as follows (Abdullah *et al.*, 2007). Since the major components of the management process include the identification, measurement, monitoring and management of multiple risks, therefore the effective implementation of this just through the process and deploying a wide system is possible. The entire risk management process should be comprehensive and to create a culture of risk management and it should cover all sectors and areas. The remarkable thing is that the risk management process specific to each financial institution depends to the nature of activities and the size and complexity of the institution. The Risk management system where it will be discussed, can be used as a standard system for trackling by bank. The Comprehensive risk management system includes the following three parts (Beygzadeh & Nademi, 2009):

Risk Analysis Banking (Van Greuning and Bratanovic, 2009)

Banking Risk

Financial Risks	Operational Risks	Environmental Risks	Commercial Risks
Balance sheet structure	Internal fraud	Country and political risks	Legal infrastructure
Earnings and income statement structure	External fraud	Macroeconomic policy	Systematic Risks
Capital adequacy	Employment practices and workplace safety	Financial crisis risks	Policy making Risks
Credit	Clients, products, and business services	Political risks	
Liquidity	Damage to physical assets	Other extravert Risks	
Market	Business disruption and system failures (technology risks)		
Interest rate	Execution, delivery, and process management		
Currency			

Sharia risk

Sharia Risk is one of the major risks which Islamic financial instruments dealing with, because of detailed Islamic rules and regulations, the Shariah risk in Iran is lower in compare with other countries. In addition, the need to obtain a license from the Survey of Islamic bonds and securities as a supervisor organization, may reduce this risk to minimum level. The Survey and securities organization in Iran has established religious jurisprudence committee for minimizing risk so that these issues will be studied in detail from the standpoint of jurisprudence (Soroush & Sadeghi, 2007).

Rules and regulations risk

The Rules and Regulations Risk is one of the most important risk for investors. There are two points which be noted about this risk. The first thing is that the permission to publish a public offering of securities in the primary and secondary market so that public offerings will be issued by the Securities and Exchange organization. The second point is that many risks, particularly operational risks can be covered in the form of the valid legal contracts. Therefore, the regulation risk is relatively low with regard to the current circumstances (Tariq, 2004).

The gradual depreciation of assets risk

It is in respect of rental securities which are based on operational lease, the basic asset of lease securities may be depreciable (such as buildings or machines) or non depreciable (such as land). If that the asset is depreciable, the depreciation rate will be published by the issuer in the prospectus accurately and Investors are aware about depreciation and apply to buy these securities. In this case, the holders of securities face with assets scrap value risk when completing a contract. If the lease be regular type, in other words, if at the time of sale (check out the maturities of securities) price is less than the amount projected in the prospectus the return on investment will be lower than expected returns. Also, if the Salvage value is higher than anticipated in the prospectus it encounters with profit (Djojosugito, 2007).

The Risk of loss in whole or in a part of assets

The Investors face with this risk when asset on based issuing is lost. Insurance coverage to cover this risk can be used. It should be noted that not all assets face such risk. For example, if the property is land, it will not be faced with the risk of loss of assets (Tariq & Dar, 2007).

Operational risks

It should be noted that the securities face to operational risk. This risk in Islamic financial instruments are arised from combination of multiple contracts and relatively include more elements than conventional securities (such as bonds) and for that reason are more important (Soroush, 2011).

Cash Management

The balance sheet in banks consists of two parts: 1- Assets, 2- Debts. The debts indicate that your bank what way has provided financial resources. These resources can be deposits that investors have deposited in bank and it also can be provided by other banks and etc. By taking account this it indicates liabilities of bank against the owners and shall in due course be returned to them. The assets are facilities which have been granted to applicants and must be received in due course. The maturity of assets and liabilities is not in same time and this may be the banks face with liquidity risks that must be managed (Moshref Javadi & Ghouchi Fard, 2009).

The Liquidity management involves predicting the bank's liquidity needs and meet these needs with the least cost possible. The banks need to liquidity because of two reasons: The first is their response to unpredicted fluctuations in bank assets and second is attract new sources in order to earn revenue (Kohan Mouei Masumeh Sabeti, Designing and execution of liquidity models for banks, studies Group of risk in Eghtesad Novin Bank - Iran, Assets and Debts management and liquidity risk in financial Institutions, Page 139).

Accordingly, the banks liquidity planning is done at two levels: The first level is concerned to reserve management that includes, accounting requirements, procedures for calculating legal reserves. The customers daily transactions Lead to change daily balance and it is a result of changing in investing and debts portfolio. The most important task in liquidity management is to evaluate the liquidity situation in order to provide legal reserves and cash for meet to customer needs. On the one hand, the banks due to the shortage of reserves are fined and on the other hand, excess reserves do not have any income for them. Thus, they are careful in calculating reserves. If they predict an increase or decrease in reserves, they try to manage their money through the money market. It means they try to purchase certificates in case of excess of reserves and they apply to borrow from the central bank in case of shortage of reserves (How *et al.*, 2005).

The second level of liquidity management includes net predicting of cash requirements due to factors such trend, seasonal, cyclical and macroeconomic growth in bank. This period of long-term planning, including the monthly intermittences (Obaidullah, 2004).

There are some risks in economical activities and the people use some economical instruments like Insurance, bank, securities,… to control uncertainity. But these instruments cannot eliminate all of the risks because they are grappling with some risks. As a result of the use of these instruments we need to apply risk management. Among these tools, the Banks, as financial institutions which are intermediaries between depositors or deposits applicants and they allocate financial resources and for this reason they have significant role (Akbarian & Dianaty, 2006).

The Nature of Islamic Banking System

The Islamic banking is handled with cooperative mode. The Islamic banks consider all of risks that an entity or a businessman faces with them. The profits and losses should be distributed regardless of the amount and payment between the bank and the client. Return on Investment in Bank is not a function of time and it is not be pre-determined (Djojosugito, 2005).

So economically, the Islamic banking should refrain from gross deviation between the actual assets and liabilities that may be in way of banking's share of profits and losses (PLS), and which has included some elements of morality and justice in own. In practice, the Islamic banking includes both methods (PLS and non-PLS) in the area of financing.

However, confidence and excessive use of procedures without PLS haven't made lot criticisms to the techniques which used in conventional and customary financing and the only difference is in their name that they use often Arabic names.

Although Islam has applied many restrictions for the use of conventional and contractual techniques and it has reduced the amount of this criticisms. However, it is better to revive the concept of Islamic banking and in order to reduce as much of the criticisms and it should expand Mudarebah in two-steps (Djojosugito, 2008).

The Islamic Banks and Liquidity Management

Most of the failure of banks is result of their disability in liquidity management. The Islamic banks, such as traditional banks, suffer from liquidity risk and as a result, the optimal management of liquidity for the Islamic banks is very difficult. The Islamic banks are not infallable, they may make mistakes as traditional banks may do.

Therefore, liquidity management in Islamic banking is more complex than traditional banking because most traditional instruments which used in liquidity management, are based on interest and they can't be used in Islamic banking (Javadi Moshref & Ghouchi Fard, 2009). The Islamic banks because of importance of liquidity management and also because of banning usury by Sharia in banking, Therefore, they use other alternatives instead of the Instruments like loan, bonds,… to attract and direct scattered savings of the people in order to achieve economic growth and development, and at the same time bring prosperity and diversity to capital market.

There are some restrictions for liquidity management in Islamic banks. Today, liquidity management faces with the inherent limitations in the Islamic banks as the traditional banks which can mentioned following:

1- The necessity in use of surplus funds to prevent decreasing in profitability in compare with traditional banking.

2- The necessity to comply with short-term liquidity needs, to avoid the risk of cash shortage.

Currently, there is an only small secondary market to liquidity management in Islamic banks. On the other hand usually assets of Islamic banks in the secondary market are not deals with buyer & seller, because

market participants cannot create necessary agreements among themselves. On the other side, Islamic banks not be able to invest in fixed-income instruments such as Treasury bills.
Another problem is the lack of interbank transactions. Today, the interbank market even on a small scale for many Islamic banks have not developed, this is due to the low number of market participants in interbank and Islamic capital market. By the way there are not short-term instruments which have 'A' credit rate in accordance with the Sharia because all of government bonds with rank A, are based on interest. The growth in instruments which are adopted to Sharia due to complexity of interoperability tools for developing products, goes slowly (Siddiqui, 2008).

Literature

Akbarian & Dianati (2006) in a study with the topic of "Management in the Banking non-Usury" entitled that there are risks in all economic activities therefore, the preparations should be considered in order to control the risks arising from economic activity. So, risk management is very important because it follows methods for risk controlling and reduction.
The banks as economical institutions which are intermediaries between depositors or deposits in order to create more incentives to maintain and increase deposits, follow risk reduction and don't transfer risk to the depositors.
In banking with usury given that the interest rates are fixed and the banks transfer risks to borrower there for they are less at risk. But in Islamic banking which is free of usury, the banks have to act in frameworks which provided by Sharia and they cannot consider a fixed rate before contract and the its rate will be determined after reviewing performance in comply with the context of Islamic contracts, so risk management in Islamic banking plays a significant role. In this article, we will explain the issue, then we will have a review on studies then, the analysis will be presented. Finally, the conclusion and policy recommendations will be mentioned.
Bakhtiari (2006) in the study "effective methods to manage liquidity in banks" mentioned required principles to establish liquidity management in banks, then he has paid to the characteristics of assets and liabilities which easily lequidiate in the banks, finally he has examined the liquidity models after introducing liquidity instruments.
Abol Hassani & Hassani Moghadam in the research "Reviewing of risk management procedures in usury-free banking" while discussing the risks associated with different methods of allocation of usury-free banking sources in Iran and in order to provide risk management they have recommended specific methods and instruments tailored to Islamic jurisprudence.
They have discussed about some of the common risk management methods such as converting assets of a company to securities in order to apply in non-usury banking and also they have noted, the methods and techniques to use in non-usury banking.
Moshref Javadi & Ghouchi Fard in study "Risk in banks & Islamic financial institutions (by considering legal risk) while they have discussed about the structure of the Islamic banking and financial instruments also have paid to study legal risk and causes of this type of risk in Islamic banking and have studied causes of the inefficiency in Islamic financial instruments (which shares the profit and loss between the banking and investment) in the contemporary world.
Talebi *et al.*, in study "analyzing and ranking of operational risks in Islamic banking" tried to response to this question that, by considering methods to allocate resources in non- usury banking what are the most important risks which banks exposure? and they have used from AHP method in their study. The findings show generally the operational risks in Islamic banks are classified into two general categories: A) The joint risks with conventional banking, B) Specific risks in Islamic banking. It should be noted that each of the two hands are divided into the sub groups.
Second, the ranking of these risks based on probability, technological risks and embezzlement in joint risks, and risks arising from transparency and paid based on convenience in specific risks, are almost important.
Iqbal *et al.*, (2001) in the book of Islamic financial instruments to manage excess liquidity in the short-term liquidity management in Islamic banking have discussed about importance of liquidity management

in Islamic banking then have reviewed liquidity management instruments in conventional banking, so study reviews characteristics and needs of short-term Islamic financial instruments.

Obaidullah (2002) in the study "Islamic risk management" has explained the efficiency and the use of option contracts to reduce and manage risk within the framework of Islamic laws and he has proved contract based on disposal options in Islamic framework is more efficient than contracts traded on the usury system.

Abdullah *et al*., (2002) have pointed out on implement the views and problems of Islamic banking in Bangladesh. He also through a case study in Bangladesh mentions that Islamic banks exposure to different types of risk as commercial and convential banks.

How *et al.*, (2005) have expressed prospects and challenges of Islamic banking in Thailand and have noted some problems in field of Islamic banking in Thailand. According to international reports the majority of the Muslim population in rural areas of Thailand subsistence through farming and they are considered among the poorest regions of Thailand. Thailand's Muslim regions don't have the economical potential for the growth of Islamic banking. The rules and regulations adequately don't support them and there are not skilled men to manage affairs in Islamic banks.

Abdullah *et al*., (2011) in a study "the operational risks in Islamic banks" to measure and manage the operational risks in Islamic banks in Malaysia have concluded that due to the regulatory environment and special features of Islamic contracts operational risks in Islamic bank more complex and more important than conventional banks

Matias Gama & Susana (2012) in a study "credit risk assessment and impact of new Basel Capital Accord on small and medium companies: an empirical analysis" have indicated that non-default risk in the next year, subject to increase profitability, only with a banking relationship probably will have higher default risk. Results suggest ways that previously have been very high margin.

RESULTS AND DISCUSSION

The Research Findings

How to Deal with PLS Risk?

It should be noted always there are some entrepreneurs who in order to come operate their idea need to financing and the banks or investors would like in order to gain profit provide the finance resources for them. Thus, the financing market consists of a supplier and a demander. Each of the suppliers and demanders, depending on the attitude and outlook of the situation and investment environment, may be willing more to follow one of two ways: "financing by fixed income and pre-determined" or "PLS financing practices".

If we look at it from the perspective of the entrepreneur, in terms of certainty and or in projects with high profitability prospects, the mode of financing and the predetermined fixed income, will be preferred than the other way. This is, because, from the point of view of the entrepreneur, PLS (participation) has significant role in the sharing of potential losses and preventing the utter bankruptcy of his projects and in this scenario which discussed (with certainty), the risk of the project is low, and this character of PLS is not impressive and attractive for him. In the other side, because of prospective of profit creates this motivation in entrepreneurs to not share in his profit. That's why in certain condition applicants would like to financing with fixed rate of interest and they are acting conservatively about using of financing through PLS.

If we look in view of suppliers the result will be different. The suppliers in financing market respect to the investing projects which provided by their invests and for this reason they are lower at risk exposure and it push them to prefer participating at projects instead of lend or receiving fixed interest, because they will not experience more risk and if projects come to profit their profit share will be more than fixed interest. The high expected profit of project can motivate suppliers to select PLS practices and avoid from financing practices withfixed return.

So, in terms of certainty and / or high profitability, the entrepreneurs will seek financing practices with fixed return, and banks and depositors will seek practices to contributing in the Profit and Loss. But when the business environment has a significant volatility (uncertainty), the tendency of suppliers and demanders will be changed on the financing market. In this situation, the entrepreneurs in order to gain greater security and transfer a portion of potential losses to the sponsors of the project, more willing to use the PLS approach and Precisely for this reason, the suppliers (banks and depositors), in order to escape the risk, unwilling to PLS approach and they would like to get the fixed and pre-determined outputs.

In the other word in terms of certainty, the demand for usury funds is more than demand for PLS, and supply of usury funding is less than supply of funding based on PLS. This situation in supply and demand in terms of certainty makes cost of financing through participation, relatively, less than cost of financing through loans based on interest.

In the other hand the PLS is a good method for certainty situation. Conversely, in the uncertainty situations, the demand for PLS is higher than demand for usury funds, and supply for PLS is less than supply for usury funds.

On the other hand, in terms of uncertainty, the cost of financing through the participation roughly is more than the cost of financing through loan and paying interest and by taking account this there is a significant role in development from view of entrepreneurs.

There are some other problems in Islamic banks over world and we can mention that lack of ability in designing a mechanism for short term deposits and also financing in field of customers is not efficient.

The risk is so high in Islamic banks because their baisses are on the division of profits and losses and they are looking for stable returns, thus, the banks have not been able to eliminate interest.

In general, risk controling process includes risk assessment and strategic plans to manage risk. Overall, the strategies including risk transfer to other sectors, avoiding the risk, reducing the negative effects of risk, and accepting some or all of the consequences of a particular risk.

The traditional risk control, focuses on prevention of risk in aspects like legal and physical causes (such as natural disasters or fires, accidents, deaths and lawsuits). The finance risk controlling focuses on those risks which can manage finance and commercial instrument.

The intangible risk controlling focuses those risks in respect to human capitals like knowledge risk, relations risk and operational process.

Regardless to the type of risk control, the risk control teams are in all large companies and, small groups and companies informally, in the absence of formal type, use from risk control.

There is a prioritization process in the optimal risk management which those risks with the big losses and highest probability will be placed and handled in priority and those risks with lower probability of occurrence and lower losses will be ranked and handled after that.

In practice, this process may be very difficult, and also sometimes balancing between those risks with the big losses and low probability and those risks with lower probability of occurrence with big lossess may not be done appropriately.

A Comparison in Combination of Facilities in the Islamic Banking of Iran and Malaysia

It should be noted after the financial crisis over the world, the Islamic banking because of some qualifications and features including the prohibition of transactions based on usury, the emphasis on real contracts, the distribution of investment risk, the make of relationship between the money supply and the real sector of the economy in Islamic banking system manage to place as a alternative for traditional banking and extent of users of Islamic banking service have raised in the some countries like Canada, England.

Currently, the number of Islamic banks operating in the Persian Gulf region is more than 25 banks that the extent of their investment which provided through contracts based on Sharia is 300bn$.

According to recent statistics, Islamic banks and Institutions annually experience the growth about 20% in their services and the value of the total assets of Islamic banks from 300 million dollars in 2005 have been increased to 880 billion dollars in 2011.

The predictions indicate that Islamic financing will experience the growth equal 20% over the period of 2011 and 2015 and finally it will reach to one trillion dollars.

The Combination of Islamic Banking Facilities in Islamic Bank of Berhad – Malaysia-(Million Malaysian Ringgit-Percent)

Source: Research findings

Financial Risks	The Volume of Transactions Jun2012	The Share of per Part in Total Transactions	The Volume of Transactions March 2014	The Share of per Part in Total Transactions
Type of contract				
Sale on open account	5871/9	59/4	5539/3	53/8
cross purchase &Sale	415/3	4/2	560/4	5/1
Ijara	157/9	1/6	275/0	2/7
Ijara muntahia bittamleek	184/4	1/9	10/0	/1
Mudarabah	18/2	/2	17/6	/2
Installment sale	1249	12/6	1743/5	16/9
Musharaka	50	/5	0	0
Cash cross purchase&Sale	1267/7	12/8	1520/4	14/8
Istisna	639	6/5	605/4	5/9
Other contracts	35	/4	32/3	/3
Total	9888/3	100	10303/9	100

The Share of Islamic Contracts in Bank Loans and Deposits in Iran

Type of Contract	The Percent of Total
Money loaned without interest	3/2
Mudarabah	9/1
Salaf	4
Equity participation	15/8
Juala	4/5
Installment sale	48
Ijara muntahia bittamleek	1/9
Equity Exposure	1/4
Direct investment	/9
Debt Dicounting	/1
Properties of transactions overdue debts	/7
Total	10/3 100

Source: Research findings

There are some methods for Islamic bank of Berhad for allocating resources which the first of all is current account. This account will be offer through bailment contract. This means depositor gives in trust the resources to bank and the bank will have this permission to enter the resources in own activities.

Although this type of account doesn't involve any gain to holder but the account holder can benefit some service like issuing check to facilitate the transactions. It should be noted Berhad will devote some gain as Zakat (Of course, the bank deducts Zakat from their profit sources and not from individual deposits of current account). Another type of account which Berhad provides is saving account which includes four types as following: 1-The depositors give their resource through Mudarabah to bank and the bank use from these resources in investment and the profit will be paid through an agreement or based on a contract. The depositor will have this permission to withdraw from his or her account. The profit also will be paid monthly and profit rate is determined and will be announced. 2-The saving account based on Mudarabah which offers profit but the reward also will be offered to depositors through lottery which be held by bank. But there is a feature and that is agreed the depositor will have not the permission to withdraw from account in specific periods. 3-The Labbaik is another type of saving account which it is based on Mudarabeh that will provide some advantages like Hadj pilgrimage through lottery which will be held by the bank and depositor also will receive the profit of deposits based on agreed conditions. Moreover, in case of death of the account holder, the bank is obliged to provide the conditions for another one person to do Hadj procedures on behalf of who passed away. 4-The bailment is the last type of saving account which doesn't include profit and the resources will be kept in bank. It should be noted beside on the above cases which discussed we can mention the Investment deposits which be provided through Mudarabah and has divided to: 1- The general Investment deposits which provides to holder to receive his or her gain monthly and based on agreed rates on the Mudarabah deposit. 2-The Sakineh is another one of Investment deposit and it is suitable more to retired persons. The depositor will have not the permission to withdraw from account for long term period. In addition financial facilities will be offer as well as profit rate and service. The Berhad Bank uses their resources in different ways, for instance "ductility" is one of the important ways in which is used in financing of the immovable goods (in particular residential or commercial buildings) even though ductility can be divided to different types. But Berhad bank benefits some methods for this and the most sample is that the bank considers three type of side of contract that including Intermediate bank, the costumer who need to cash and the dealer. At the first step bank apply to buy the good from dealer after that the bank will offer the good by considering it's gain to customer and finally the bank on behalf of customer sells good to dealer again and it can be use by another person who will need. The bank also use from ductility in some other ways include personal financing. The cars and vehicles financing also is done using the installment sales contract in the bank. It should be noted that in Berhad Islamic banking of Malaysia almost transactions are done on the basis of two contracts including installment sales and ductility and the use of other contracts are rarely done. The financing instruments and concepts in Islamic banking system in Malaysia almost is corresponded with the Iranian contracts. The Reviews on the performance of Islamic bank of Berhad in Malaysia show, 53 percent of the financing through installment sales, 18 percent through Murabaha, 5 percent through Istisna and 3 percent is done through Ijara & Ijara muntahia bittamleek. The investing in stocks is one of the financing methods which is used by the banks in Malaysia. According to control rules of keeping stock in Malaysia, a financial institution may purchase shares of other institutions with certain conditions. The Mudarabah is applied just in respect to commerce and in allocating resources in non-Usury banking system of Iran. It is one of different between banking system in Iran and Malaysia because in Islamic banking system in Malaysia. The Mudarabah is not limited to commerce, also another different is about debt purchase which is used in allocating resources in contrast to Islamic banking system in Malaysia which debt purchase is not accepted. We should consider the profit rate in exchange contracts which is determined by the Council of Money and Credit in Iran's bank while Malaysian banks doesn’t apply this method. Another different is about the Zakat. The Islamic banks in Malaysia offer part of their gains as Zakat to charity affairs in facultative way and it will be reflected in their balance sheet but we cannot see this in Iran's banking system. The Iranian banks guarantee principal of profit as well as deposits but we cannot see this in most of Islamic countries and the customers simply by taking account the bank background in payments of interest as well as their trust act to open an account.

Conclusion

The Sharia prohibits Usury but doesn't ban other invest income resources. In other words, every precondition in the event of gaining profit in respect to the initial capital and debt has been banned. The Islam encourages making jobs and applying Invests in projects. By taking account the result of research we can say among the risks which are measured, the liquidity and operational risks in Islamic banking was more than conventional banking, and there was no significant difference in field of credit and market risks. But Notable the findings showed that the liquidity risk is the most important risk of banks and there are some reasons to consider about it. In case of credit risk, we should borne in mind that the conventional credit risk cannot be comparable with international insides and the bank will need to apply some actions to reduce this type of risk.

The Islamic banking is based on Physical exchange of goods, direct engagement with business and labor, Ijareh and construction contracts using various contracts in comply with Sharia. The Islamic banking in order to increase public revenue manages assets.

The risk sharing and its management to achieve the rule of participation in the projects is one of the goals of Islamic banking. The Profit in Islam is called reward and some activities based on risk sharing and use of resources has been permitted to raise the capital. The financial transactions which are permitted by Islamic Sharia should be based on the provision of goods, services and the benefits, and this is to considered in order to deal and interact better between monetary policy and fiscal policy. By the way rent of an asset and usufruct is permitted by Islam. The current system of non-interest banking suffers from some risks and some of this problems is result of those defects which are in non-usury banking system of Iran and therefore, to eliminate these defects and thus, reduce credit risk in the banking system of Iran, following the guidelines and suggestions can help to solve the problems resulting from risk in non-interest banking system.

Some actions such doing procedures to push banks to be more exclusive which can reduce their costs, trade capital financing which should do exclusively, maintaining of employment through certain banks, improving ease and speed of banking operations, avoiding contracts and nominal documents, planning so that the bank be able to response various economic sectors, avoiding Contribution and investment by commercial banks, and making of a separate planning for interest rate of exchange facilities contracts, are the results of this proposal.

Financing in order to help poor people and providing a model based on fundamental of Sharia in order to eliminate poverty and establishment of social justice, doing some action to reduce costs in banking system, reducing bureaucratic procedures in field of micro financing, providing possibility by government to present loans an participate through borrowing that and organizing resources of money loaned without interest in short terms are the results of the suggested model in field of interest-free.

REFERENCES

Abdul M & Sarker A (1999). Islamic banking in Bangladesh: performance, problems & prospects. *International Journal of Islamic Financial Services* **1**(3).

Abdullah F, Hassan T & Mohamad S (2007). Investigation of performance of Malaysian Islamic unit trust funds: Comparison with conventional unit trust funds. *Managerial Finance* **33**(2) 142-153.

Abdullah M, Shahimi S & Ghafar Ismail A (2011). Operational risk in Islamic banks: examination of issues. *Qualitative Research in Financial Markets* **3**(2) 131-151.

Ali SS (2005). *Islamic Capital Market Products: Developments and Challenges*. (Islamic Research and Training Institute, Islamic Development Bank).

Da Silva MS and Divino JA (2013). The role of banking regulation in an economy under credit risk and liquidity shock. *The North American Journal of Economics and Finance* **26** 266-281.

Djojosugito R (2007). Necessary Legal Reforms to Create Legal Basis for Effective Islamic Asset Securitization (Sukuk) in Indonesia. *Islamic Economics and Finance* 489.

Djojosugito R (2008). Mitigating legal risk in Islamic banking operations. *Humanomics* **24**(2) 110-121.

How JC, Karim MA & Verhoeven P (2005). Islamic financing and bank risks: the case of Malaysia. *Thunderbird International Business Review* **47**(1) 75-94.

Iqbal M, Ahmad A & Khan T (1998). *Challenges Facing Islamic Banking*, Occasional Paper #1, (Jeddah: Islamic Research and Training Institute, Islamic Development Bank).

Matias Gama AP & Susana Amaral Geraldes H (2012). Credit risk assessment and the impact of the New Basel Capital Accord on small and medium-sized enterprises: An empirical analysis. *Management Research Review* **35**(8) 727-749.

Nisar S (2007). *Islamic Bonds (Sukuk): Its Introduction and Application*. Electronic Article. Available: www.financeinislam.com.

Obaidullah M (2002). Islamic Risk Management. *International Journal of Islamic Financial Services* **3**(4).

Sarker AA (2004). Concept and ideology, Issues and problems of Islamic banking, *International Journal of Islamic Financial Services* **1**(3).
Siddiqui A (2008). Financial contracts, risk and performance of Islamic banking. *Managerial Finance* **34**(10) 680-694.
Tariq AA & Dar H (2007). Risks of Sukuk structures: Implications for resource mobilization. *Thunderbird International Business Review* **49**(2) 203-223.
Tariq AA (2004). *Managing Financial Risks of Sukuk Structures*, (Loughborough University, UK) September (mimeo).
Van Greuning H & Bratanovic SB (2009). *Analyzing Banking Risk: a Framework for Assessing Corporate Governance and Risk Management*. (World Bank Publications, Washington DC, USA).