

## A Different Banking Methods and the Developing in the Turkish Finance Market-Turkish Participation Banking for 2007-2012

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### **Abstract**

Financial systems and institutions has become the most important reason in the fragility of world economic system. The formation and development process of the financial structure also constitutes the infrastructure of the world economic system. The course of the financial system and development has led to debate with the financial crisis in 2008-2011. One of the discussion topics in order to eliminate problems caused by the conventional banking system is alternative financing systems. In Turkey, the corporations based on profit share system which are named participation based banking spotlight, if the alternative banking systems are considered. These banks which determine different principles in the risk distribution of the portfolio acquired are analyzed more nowadays. Participation based banks are placed in almost every regulation related to banking terms and get their legal infrastructure more stable in the banking legislation of Turkey.

This study is a 2007-2012 part of research series. We try to find out the place and the importance of participation based banking with the various sub-headings especially in Turkey. We examine the comparative review 2007-2012 data of participation banks which Collected Turkish Currency and Foreign Currency Funds, Bank Loan Funds, Total Assets, Equity and Net Profit figures for the four participation banks in Turkey. We are comparing the total figures with deposit banks for the same period.

One of our primary goals in this essay, to study in the framework of the alternatives of the financial institutions and options. These options could be asserted as a vibrant and viable well established choice as a non-western model- different from the classical western interest based dominant banking system in the globe. Moreover, that participation banking systems' grow and increase with its resourceful bulk of transactions and shares within the financial market. In addition, we intended to delineate the basic functioning structures, rules, norms, principles, procedures, operations of that alternate banking system in the financial market.

After that, we have applied as a descriptive, explanatory, discursive and comparative analytic methodology to expound the matter in detail. Having gathered literature reviews then we have concentrated on Turkey as a model state in that banking system practice; at which, what kind of instruments and tools used by referring basic indicators, data and information related to the growth, flourish and share of that sector within the total banking and financial system in Turkey.

Furthermore, that participation banking system positions, researched in the country. Thus, it is explicated more concerns on by investigating its credits, deposits, financing formulation systems and commitments with the banks, customers and investors of the alternate banking system in the country's financial order. At last, we have attempted to clarify and summarize the concepts, definitions, expositions, demonstrations, rules, assets, liabilities, equities etc.. by giving special cultural

internalizations about the organizational and operational activities of the participation banks both similarities and discrepancies, too; so as to draw the attentions of the new researchers and studies in that situation.

**Keywords:** Bank, Finance Market, Finance Sector, Participation Bank, Islamic Bank, Interest Free Banking, Alternative Banking System

## **Introduction**

With their former name Private Finance Institutions, or with the new one, Participation Banks have no authority to collect deposits but receive fund through special current accounts or profit and loss participation accounts, and utilize fund through methods such as production support, community of profit and loss, financial leasing, buying and selling documents against payment. Even if these institutions are having been allowed in Turkey since 1984, they have been limited in terms of both quantity and scale (Central Bank of Republic of Turkey, 2005).

The constitution of the legal base for interest free banking in our country is dated as the end of the year 1983. With the decree dated 16.12.1983 and numbered 83/7506, the foundation of Private Finance Institutions is laid.

Participation Banks are banks operating in financial sector, financing real economy and offering banking service. Participation banks collect funds from saving owners, use them in industrial and trade sectors according to the interest free financing principles and shares the profit or loss with saving owners. The word “participation” in their name expresses that this type of banking is based on the principle of participation to profit and loss (The Participation Banks Association of Turkey-FAQ, 2010).

Participation banks serve as a means of transformation of saving to capital. Proportional to their advantage of working with a greater number of branches, they also give standard banking services such as investment consulting, safe deposit box, money transfer service, giving check book, mediating cash proceeds etc (Battal, 2007, p. 57). Today, variety of such services given by participation banks is equal or similar to the standards of other banks.

Now, in this article, we are going to elaborate as the unit of analysis, the Participation Banks, new financial instruments. In the middle of the first quarter of 21th century, there has been occurred a World Financial Crises. In fact, that crises mainly influenced the capitals of the financial center in the West. For those countries which heavily affected by this financial crises, forced them look for new financial instruments and systems. For that reason, it led to the quest for alternative models, opportunities or proposals.

The fiscal and financial crises, especially in the European Union Member States, it may be due to of the rigidity of Maastricht Euro criteria, is deepening and deteriorates further. So we think that it proves the need for searching new sort of financial innovations, techniques and tools. It is also our modest propositions that might be recorded some theoretical and practical contributions and amendments to overcome these current troublesome critical financial problematic.

One of our primary goals in this essay, to study in the framework of the alternatives of the financial institutions and options. These options could be asserted as a vibrant and viable well established choice as a non-western model- different from the classical western interest based dominant banking system in the globe. Moreover, that participation banking systems' growth, advancement and increase with its resourceful bulk of transactions and

shares within the financial market. In addition, we intended to delineate the basic functioning structures, rules, norms, principles, procedures, operations of the Alternate banking system in the financial market.

After that, we have applied as a descriptive, explanatory, discursive and comparative analytic methodology to expound the matter in detail. Having gathered literature reviews then we have concentrated on Turkey as a model state in that banking system practice; at which, what kind of instruments and tools used by referring basic indicators, data and information related to the growth, flourish and share of that sector within the total banking and financial system in Turkey.

Furthermore, that participation banking system positions has been researched in the country. Thus, it has been explicated more concerns on how it can be investigated by mentioning its credits, deposits, financing formulation systems and commitments with the banks, customers and investors of the alternate banking system in the country's financial order. At last, we have attempted to clarify and summarize the concepts, definitions, expositions, demonstrations, rules, assets, liabilities, equities etc.. by giving special cultural internalizations about the organizational and operational activities of the participation banks both similarities and discrepancies, too; so as to draw the attentions of the new researchers and studies in that situation.

## **I. Participation Banking in the Literature**

Banking methods defined in this system called "Islamic Banking" in the international literature are methods such as various kinds of project partnership and others based on prohibition of interest (Moles & Tery, 1999, p. 304). Islamic banks in general referred to the three types of. (1) Development banks, (2) Islamic banks in special purpose, (3) Islamic Commercial Banks. Participation banks may categorize in Islamic Commercial Banks groups (Canbař&Doğukanlı, 2007, p. 237). Islamic bank works as a trading concern and financial intermediary to perform interest-free activities purely according to principles of Sharia'h. It is a welfare organization that promotes business and trade activities by pooling the financial resources for the sake of profit and loss for mutual benefit (Ahmad, Humayoun, & Hassan, 2010, p. 8).

Participation or Islamic banks are not institutions peculiar to Turkey. All around the world, especially in Muslim countries, there are many financial bodies operating according to a similar system. Even if the system consisting of such kind of institutions operating on the basis of partnership of profit and loss is known as "interest free banking" or "Islamic banking" in the world, it is taken first as "special finance house", and then as "participation banking" in the Turkish regulations.

The first modern experiment with Islamic banking can be traced to the establishment of the MitGhamr Savings Bank in Egypt in 1963. During the past four decades, however, Islamic banking has grown rapidly in terms of size and the number of players. Islamic banking is currently practiced in more than 50 countries worldwide. In Iran, Pakistan, and Sudan, only Islamic banking is allowed. In other countries, such as Bangladesh, Egypt, Indonesia, Jordan and Malaysia, Islamic banking co-exists with conventional banking. Islamic banking, moreover, is not limited to Islamic countries (Chong & Liu, 2009, s. 125-126).

But, when we look at the books of financial institutions generally we can't see these institutions among the financial institutions (Rose & Marquis, 2009). (Burton, Nasiba, & Brown, 2009) (Mishkin& Eakins, 2009) On the other hand Islamic banks' ability to withstand the global downturn has fuelled an expansion of Islamic finance around the

world. Islamic banks have learned that customer loyalty and brand loyalty must be earned (Omar & Ali, 2010, p. 25).

The Islamic banking and finance systems in West will continue to grow in areas like Sukuk, Takaful, hedging funds, mutual funds, equity & asset management, corporate finance, wealth and asset management. These high street banks are far more accessible and popular, and all offer similar services. The main reason for the struggle is that, the Islamic bank is introducing an entirely new banking model into a country that has been built around an existing banking system that has been around for a long time (Malik & Malik, 2011, p. 184).

### **Related Legal Regulations in Turkey**

Generally six types of regulations seek to enhance the net social benefits of commercial banks services to the economy (1)safety and soundness regulation, (2)monetary policy regulation, (3)credit allocation regulation, (4)consumer protection regulation, (5)investor protection regulation and (6) entry and chartering regulation (Saunders & Cornett, Financial Markets and Institutions, 2004, p. 379). We will deal with some of these regulations in this study for Turkey.

Deposit banks, participation banks, development and investment banks, branches of foreign banks, financial holding firms in Turkey, The Banks Association of Turkey (BAT – TürkiyeBankalarBirliđi), The Participation Banks Association of Turkey (PBAT – TürkiyeKatılımBankalarıBirliđi), Banking Regulation and Supervision Agency (BRSA – BankacılıkDüzenlemeveDenetlemeKurumu-BDDK), Savings Insurance Deposit Fund (SIDF – TasarrufMevduatıSigortaFonu-TMSF) and their activities are regulated by the mentioned Banking Act. With the condition that the provisions of the related law are also valid for the banks founded according to special acts, the provisions of the Banking Act are applied. In case of absence of related provisions in the special act, general provisions are applied (Banking Act no. 5411, article 2).

Participation banks are supervised by Banking Regulation and Supervision Agency (BRSA). In 2004, the Uniform Chart of Account was formed for participation banks, and these institutions began bookkeeping as other banks, in accordance with the mentioned chart of account (Central Bank of Republic of Turkey, 2005).

### **Definitions Regarding Participation Banks in the Banking Act**

In the 3rd article of the Banking Act no. 5411, there are important definitions showing differences and similarities between participation banks and other banks. According to these definitions, both deposit banks and participation banks consist two lower members of the higher definition of “Loan Institution”. There are also two banks associations defined in the Banking Act, one of which is the Participation Banks Association of Turkey, and other is the Banks Association of Turkey with a more widespread structuring.

The definition of “bank” in the Banking Act includes 3 types of banks. These are:

**Deposit bank:** Institutions operating mainly by accepting deposit and utilizing loan in accordance with the Act in the name and account of itself, and branches in Turkey of such foreign institutions,

**Participation bank:** Institutions operating mainly by collecting funds through special current accounts and participation accounts and utilizing loan in accordance with the Act in the name and account of itself, and branches in Turkey of such foreign institutions, and

**Development and investment bank:** Institutions operating mainly by utilizing loan rather than accepting deposit or participation funds, in accordance with the Act in the name and account of itself, and branches in Turkey of such foreign institutions.

### **Permission for Foundation or Branch and Office Establishment (Subsidiary) in Turkey**

According to the 6th article of the Act no. 5411, the foundation of a bank in Turkey or the first branch establishment in Turkey of a foreign bank, is allowed with the condition that it is in accordance with the conditions proposed in the Act, and with decision taken through positive votes of at least 5 members of BRSA. Allowance applications and principles regarding to this allowance is determined by the regulations published by BRSA.

### **Conditions of Foundation**

According to the 7th article of the Act, the main conditions for the foundation of a bank in Turkey are as follows:

- a) It has to be founded as an incorporated company,
- b) Stocks have to be issued in against cash reserve and all has be written in the title,
- c) Founders has to have the qualities defined in the Act,
- d) Board members has to have the qualities defined in the Act and to have professional experience in order to be able to realize planned operations,
- e) Proposed subjects of operation have to be in accordance with planned structure of finance, management and organization,
- f) Its issued capital free of every kind of collusion and in cash has to be at least 30 million New Turkish Lira,
- g) Its founding charter has to be in accordance with provisions of the Act.

In addition, it has not so complex structure of organization and partnership which would prevent supervision, and plans regarding proposed operation objects and structures regarding internal organization have to be designed in a realist manner.

### **Provisions Regarding Loans**

Participation banks are subject to strict provisions of the Banking Act regarding loan and loan limitations. At the end of the detailed definition of "loan" in the 48th article, in the second paragraph, fund utilization styles peculiar to participation banks are mentioned to be seen as loan in the implementation of the Act:

(...) funding obtained by participation banks through payments of prices of movable and immovable possessions and services, or through methods such as profit and loss partnership investments; supply of immovable, equipment or commodity; or financial rent; funding of documents against payment, joint investments and so on are accepted as loan (...)

### **Loan Limitations**

The quality of loans in the assets of the banks is very significant in terms of building banking system on a sound basis and operating with sound balance sheets. The motive behind the Banking Act and regulations made by BRSA is the prevention of these bank owners utilizes collected funds in too risky operation fields or in their own group companies with disregard of objective evaluation. In order to achieve this goal, the Banking Act puts some limitations on the distribution of loans and proposes severe penal sanctions in case of violation. These limitations are valid also for participation banks. These are shown below in general terms.

Total loans utilized by a natural entity or a legal entity or by a risk group cannot exceed 25 % of equities. (There are some exceptional cases in which different rates are implicated)... Loans given to an ordinary partnership are assumed to be given to partners proportional to their responsibilities.

Loans utilized by all partners registered in the stock register holding 1 % or more of the bank's capital and entities consisting risk group with them cannot exceed 50 % of equities.

Loans utilized by partnerships controlled jointly are assumed to be utilized by the risk group which includes every shareholder controlling the partnership jointly proportional to the rate of its share within the partnership capital to the total share controlled jointly.

Loans utilized by a natural entity or a legal entity or by a risk group and equaling or exceeding 10 % of equities are assumed to be "great loan". Total great loans cannot exceed 8-multiple of the equities. (...) When elements of the same risk group risk is included in the assurance of a risk group's loans, topics such as how calculations will be made and how assurance elements with guarantee of country's central government are mentioned in the Act (Banking Act no. 5411, article 54).

### **Operations without Loan Limitations**

Furthermore, the 55th article mentions operations which are outside of loan limitations. Ones of these which are thought to be related to participation banks are listed below. BRSA can made additions to these operation types.

- a) Operations paid in cash, values and accounts similar to cash, and precious metals.
- b) In case of allocation of a new loan to the same entity or same risk group, with the condition of that loans given before in foreign currency or in unit of foreign currency are considered in current exchange rate as of the date when the following loan begins to be utilized, with the exception of use of check book or credit card, increases of loans stemming from change of exchange rate, and interest, profit share and other elements settled to overdue loans.
- c) Partnership shares obtained free because of every kind of capital increases and value increases of partnership shares which does not require any fund going out.
- d) Operations between banks according to the principles determined by the Council.
- e) Partnership shares obtained in scope of undertaking of mediating public offer.
- f) Operations considered as discount value in the account of equity.

### **Participation Banks Founded in Turkey**

Special finance houses adopted by Turkish society in short time showed a rapid improvement in terms of collected funds, volume of work and project capacities. These finance institutions are:

**AlbarakaTürk Special Finance Institution Inc.:** The first finance institution of interest free banking in Turkey, AlbarakaTürk Participation Bank, finished its foundation in 1984, and began its operations as of the beginning of 1985. Its name is still AlbarakaTürk Participation Bank. (AlbarakaTürk – About Us, 2010)

**KuveytTürkEvkaf Finance Institution Inc.:** KuveytTürk, founded in 1989 at the status of Special Finance Institution, changed its name in May 2006 as KuveytTürk Participation Bank Inc (The History of KuveytTürk, 2010).

**Anadolu Finance Institution Inc.:** It began its operations in 1991 in Ankara. It is founded with domestic capital.

**Faisal Finance Institution Inc.:** Founded in 1985. In 2001, Faisal Finance Institution Inc. It has been taken over by ÜlkerGroup, its trade name was changed to Family Finance Institution Inc. In 2005, Anadolu Finance Institution Inc. and Family Finance Institution Inc. merged under the name of Türkiye Finance Participation Bank Inc.

**İhlas Finance Institution Inc:** Founded in 1995. As a result of the 2001 economic crisis, it went on bankrupt and its official authorization has been cancelled. That bank still has been

in liquidation, since 2001. We should underline the fact that the bankruptcy of this finance bank negatively influenced the other participation banks, too.

Asya Finance Institution Inc: Founded in 1996. After the Act no. 5411 came into effect, its name has been changed to Bank Asya Participation Bank.

After the Banking Act no. 5411 accepted on October 19, 2005 and published in the Official Journal on November 1, 2005, the name "Private Finance Institutions" has been changed to "Participation Banks". And the name "Private Finance Institutions Association" has been changed to "Participation Banks Association of Turkey" which has also created their own insurance funds so as to prevent their depositors' loss; because of any of its member's probability of bankruptcy at which they could compensate similar to other banks. This insurance include some limits like deposit banks insurance.

Participation banks operating today among the institutions mentioned above are AlbarakaTürk Participation Bank Inc., KuveytTürk Participation Bank Inc., Asya Participation Bank Inc. and TürkiyeFinans Participation Bank Inc.

## **II. Methods of Fund Collection**

These organizations collect funds in the form of sharing accounts or current accounts to operate independently within each maturity group (Parasız, 2009, p. 251). Main items of liability side in the balance sheet of all firms consist of equity capital and loan capital. Equities are funds given by partners as capital or profit which is not distributed etc. These express resources belonging to the capital owners. However the share of equity item within the total capital is not so high in finance institutions and especially in banks in comparison to other businesses. It can be read as follows: An important part of resources of banks consist of loan capital. Because of the banking system is based on this. Bank or participation bank transforms funds collected from real or legal entities to loan. And the collected funds are naturally loan capital. Therefore, the growth of a bank depends on that it collects funds as much as possible in order to be able to give loan as much as possible. In deposit banks, fund collection is mostly realized through promise of interest. However participation banks cannot promise any future interest which would mean a predefined return.

Participation banks collect funds mainly through three ways below. In addition to them, there are also investment accounts based on gold or precious metals.

### **Current Account**

Current accounts are funds which belong to physical or legal entities, money in which can be withdrawn every time partly or totally, and which don't pay any interest or profit to their holders. These accounts are similar to checking accounts in interest banks. Account holders open current account to be free of trouble to protect their money against theft, loss etc., and have opportunity to keep their money in a safe place. They also use services provided by their bank such as use of commercial check book, Money transfer, collection of check and bills. With the help of these accounts, services are provided such as payment and so on, parallel to needs of commercial and daily life. Therefore, these accounts which are mostly dynamic are not proper to bring return and to promise interest. However banks can use these capitals as equity capital after determining average amounts held in these accounts and keeping the needed reserves.

### **Participation Accounts**

Participation accounts are funds of interest free banks which belong to physical or legal entities, money in which is deposited as Turkish Lira or foreign currency against contract of profit/loss participation account, and which result in profit/loss participation. Interest free banks pay amount of balance equivalent to unit account value to the account holder according to the state of profit/loss. Payees of interest free banks have no right to demand anything from funds accumulated in these funds (Akin, 1986, pp. 288-299). Returns remaining back from the funds deposited by participation account holders are distributed to account holders after deduction of losses stemming from returns obtained from funds utilized in pools constituted after certain criteria are handled such as their fixed terms and deposit date. When these returns are distributed, certain shares of these returns are held by participation banks as management share.

### **Special Fund Pools**

Participation Banks, according to the 60th article 7th paragraph of the Banking Act, can create special fund account pools for 3 or more months by collecting funds in private accounts in order to be utilized for financing planned projects or other investments, without the necessity of adhering time or types determined by the Central Bank of the Republic of Turkey. Participation accounts belonging to funds collected in this manner are operated in different accounts independent from other accounts and with different time. No transfer is allowed from the collected funds to other period groups. The related authority or institution has to be informed in 15 days after opening or closing dates, regarding special fund pools. At the end of the period of funding, special fund pools get closed\*\*.

## **III. Fund Utilization Methods**

Banking activity is mainly not a sector of trade of goods and service. This sector is a service sector. With its operations, it is a sector aiming to utilize fund surplus – collected from entities which have no opportunity or ability to use funds in their hands – for paving the way for operations based on commercial activities, and to take a share from the added value created. Therefore funds collected in order to create added value have surely to be used for production of goods and service. Otherwise, it is obvious that money etc. held in lockboxes would not increase where they stay, and not create added value. The most important difference of participation banks is that they prohibit for themselves certain methods of fund utilization and certain sectors used by other banks when utilizing collected funds.

### **Fund Utilization Methods based on Commerce**

The main fund utilization methods of participation banks can be listed under two titles: The first of them is Fund Utilization Methods based on Commerce. Also deposit banks can use these types of financing. However there are some points in certain procedures such as handover of money which participation banks pay more attention. The important points here are that it has to be an operation necessarily based on trade of goods or service, and that payment to be made has to be delivered to the firm which sells the goods.

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\*\*Published in Official Journal no. 26333. Banking Regulation and Supervision Agency (BRSA) / Bankacılık Düzenleme ve Denetleme Kurumu (BDDK), article 7, 2006



### **Private Funding Support**

Participation bank pays the price of goods or services – bought by real entities directly from sellers for personal needs such as vehicle and apartment – in the name of the customer to the seller, with the condition of not to be used in funding of commercial activities, and in return the buyer is charged with a debt (The Participation Banks Association of Turkey, 2008).

### **Financial Rent**

In the operation which is called “leasing” today, the person who wants to buy a good demands that this good is bought by the participation bank and rent to this person after the agreement between this person and the participation bank. However it is decided the customer of the participation bank will be the owner of that good after a certain period of rent and of paying rents. In this way, the good with financial renting is used by the customer demanding financial renting, and is owned by the bank. At the end of rent period, the ownership is handed over. As investment banks, also participation banks can realize financial renting operations without founding a separate company.

### **Murabaha: (Installment Sale)**

Murabaha used in banking is sale of goods with an order of sale in which payment is made some time after delivery of the goods transacted. A customer and a bank sign a pre-contract which proposes that the customer buys a good from the bank. After the contract, upon the customer’s written demand, the bank buys the mentioned good in cash from the seller, and sells it to its customer in accordance with the conditions agreed upon before (Akin, 1986, p. 159). So, participation bank mediates trade, buys the good from the seller in cash, and sells to its customer for the account.

### **Fund Utilization through Profit and Loss Partnership Method**

#### **Mudaraba: (Venture Capital)**

Mudaraba is a method of fund utilization used by interest free banks very commonly. One party gives its labor, know-how and experience (entrepreneur), and the other party gives capital (interest free bank). In this method, real and legal entities present their applicable projects to the bank. The manager accepted and funded by the bank is called “mudarib”, and the person or institution funding or supporting the project is called “Rabbul-mal”. After signing a contract with the mudarib, Rabbul-mal (interest free bank) has to keep ready the amount of capital mentioned in the contract, in accordance with mudarib’s demand. Other than conditions mentioned in the contract, bank has no authority to interfere in transactions realized by the project owner. However in case of emergence of danger of loss because of unplanned and irregular work, the bank can make some initiatives in order to prevent loss. Normally, it can control accounts every time, and demand all formal and informal bookings. Profit obtained at the end of mudaraba operation is shared among Rabbul-Mal guaranteeing funding and mudarib using fund according to the proportion determined before. In case of any loss, this loss is met by Rabbul-mal (Küçükkoçaoğlu, 2010, p. 8).

#### **Muşareke: (Joint Capital Partnership or Capital Investment)**

Muşareke is called “şirketü'l-İnan” in the Islamic Law. While One party, i.e. bank, gives capital, and the other party, i.e. real or legal body demanding fund, gives labor in the mudaraba contract, both of these two parties put forward both their labor and capital in müşareke contract. One or more of participants of partnership realize the work, and every partner included ones which does not take part in the work too deserves a certain right

according to the rate agreed before. Even if capitals are the same, profit shares can be different, or vice versa. The finance method called *muşareke* is applied in following manner: Islam Bank takes the responsibility to provide a part of the capital which is demanded by its customer as its partner. And the customer provides the rest of project capital due to its own financial opportunities and the qualification of the project. The customer takes the responsibility of management, control and monitoring of the financial aid because of its expertise. Taking these responsibilities, the customer deserves to take a bigger share of the profit (Küçükkoçaoğlu, 2010, p. 10).

#### **Selem Sale: (Current Sale of Future Delivery Goods or Future Markets and Sales)**

“Selem sale” means buying a good on account with another good bought or sold in cash. The bank buys a good by paying its price in cash which is going to be delivered to the bank in a future date agreed upon in the contract between the bank and the seller. A different style of *selem* sale, as in funding purchase of building, machinery and equipment, can be used also in purchase of consumer durables in case of that conditions are proper in terms of economy. In other words, this finance technique can be used in order to fund industry, trade and agriculture (Akin, 1986, p. 163).

According to another definition, *selem* is the sale activity which is made with money in cash and goods on account. In *selem*, type, quality, amount, price, delivery place and date of the product have to be determined in the contract. With the help of *selem*, goods which will be produced in a future date are sold, and the needed money is obtained. On the other hand, customer buys a good which it will need in a future date. So, both parties meet their needs without using interest (Yılmaz, 2010, p. 14). For example, a farmer which needs money is supported by the bank in terms of capital, and the bank sells the yield in the market.

#### **Documents against Payment**

This type of fund utilization method is used for funding of foreign trade. According to the contract signed between participation bank and the party using fund, the participation banks buy documents against payment in cash, and sells to one using fund on account with a higher price. This type of finance technique is mainly based on the method of *murabaha* (forward sale) (Akin, 1986, p. 290). However, methods and documents used in foreign trade gain importance at that point. Documents are used in foreign trade especially in operations of documented credit. They are documents which assure importer's custom clearance of goods sent by exporter. Therefore, these documents which make possible that goods entering in customs in the country of exporter are delivered by customs authorities are undertake the ownership of goods as documents with status of valuable papers.

It means that a participation bank buys goods abroad in the name of its customer who gave him order, and sells them to its customer.

### **IV. Personnel and Branch Structure of Participation Banks**

#### **Growth of Branch Numbers**

As of the end of 2012, the number of deposit banks founded in Turkey is 32. While 3 of them are based on public capital, 12 of them are based on domestic private capital, and 16 of them are based on foreign private capital, 1 of them belongs to SIDF. Additionally, there are 13 development and investment banks founded in Turkey. When we take also 4 participation banks into consideration, it is seen that the number of banks in Turkey reaches to 49.

The number of branches of deposit banks was 7.570 in 2007, and reached to 10.234 with an increase of 35, 2 % as of the end of 2012. The number of branches of participation banks was 422 in 2007, and reached to 828 with an increase of **96, 2 %** as of the end of 2012.

3 public banks and 1 SIDF bank excluded, each of 28 private deposit banks has average 254 branches, and each of 4 participation banks has average 207 branches. Looking at the growth rates of the number of their branches from 2007 to 2012, it is seen that the growth rate of branches of participation banks is almost three times more than deposit banks. The table below shows the position of participation banks within themselves.

Table 1 Growth of Branch Numbers, 2007-2012

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	<b>108</b>	<b>174</b>	<b>144</b>	<b>179</b>	<b>605</b>
2012	137	250	221	220	828
2011	123	200	180	182	685
2010	109	175	141	182	607
2009	101	158	121	180	560
2008	100	143	113	174	530
2007	80	118	87	137	422

Table 1/b Increase Rate from Previous Year at Branch Numbers, 2007-2012

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year	Total Sum
Average 2007-2012	<b>14%</b>	<b>19%</b>	<b>19%</b>	<b>11%</b>	<b>15%</b>	
2012	11%	25%	23%	21%	<b>21%</b>	
2011	13%	14%	28%	0%	<b>13%</b>	
2010	8%	11%	17%	1%	<b>8%</b>	
2009	1%	10%	7%	3%	<b>6%</b>	
2008	25%	21%	30%	27%	<b>26%</b>	
2007	27%	30%	10%	12%	<b>19%</b>	

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

### Growth of Personnel Number

As of the end of 2012, totally, 201.454 employees are employed in the banking sector in Turkey. Personnel number of deposit banks was 153.212 in 2007, and reached to 181.197 with an increase of 18,3 % as of the end of 2012. The number of personnel of participation banks was 9.215 in 2007, and reached to 15.356 with an increase of **66,4 %** as of the end of 2012. Looking at the growth rates of the number of their personnel from 2007 to 2012, it is seen that the growth rate of personnel of participation banks is almost four times more than deposit banks

Table 2 Employments in the Banking Sector, 2007-2012

	2007	2008	2009	2010	2011	2012
Participation Banks	<b>9.215</b>	<b>11.032</b>	<b>11.802</b>	<b>12.703</b>	<b>13.857</b>	15.356
Deposit banks	<b>153.212</b>	<b>166.325</b>	<b>167.063</b>	<b>173.133</b>	<b>176.576</b>	181.197
>Public banks	41.056	43.333	44.856	47.235	50.239	51.587
>Private banks	75.124	82.158	82.270	83.633	89.047	90.612
>Fund banks	325	267	261	252	243	226
>Foreign banks	36.707	40.567	39.676	42.013	37.047	38.772
Development and investment banks	<b>5.322</b>	<b>5.273</b>	<b>5.339</b>	<b>5.370</b>	<b>4.842</b>	4.901
<b>Total</b>	<b>172.391</b>	<b>182.630</b>	<b>184.204</b>	<b>191.206</b>	<b>195.275</b>	201.454

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

As of the end of 2012 (December 2012), the average personnel number for branch in participation banks is as follows:

Bank	Total No./Branch No.	Personnel	Average Personnel No. for Branch 2011	Average Personnel No. for Branch 2012
<b>Albaraka Türk</b>	2012(2.758/137)	21,1	20,1	
<b>Bank Asya</b>	2012(5.064/250)	22,7	20,3	
<b>Kuveyt Türk</b>	2012(3.939/221)	18,5	17,8	
<b>Türkiye Finans</b>	2012(3.595/220)	18,6	16,3	
<b>Total Sum</b>	2012(15.356/828)	20,2	18,5	
<b>Deposit Banks</b>	2012(181.197/10.192)	18,0	17,8	

Actually, Bank Asya Participation Bank has the biggest personnel number and average personnel number. Apart from Bank Asya, Albaraka's average is high. In deposit banks, average personnel number reached by dividing the total personnel number to the branch number is 18 in the end of 2011. The same average is 20,2 in participation banks. This means that participation banks employ 12 % more employees for branch than deposit banks for 2011. But both of them is equal almost in the end of 2012. The average personal decreased in the end 2012 for participation banks. Rapidly increase in the brunch number seems the cause of the decrease for average brunch personnel number.

Table 3/a Growth of Personnel Number (Participation Banks), 2007-2012

End of year	Albaraka Turk	Bank Asya	Kuveyt Turk	Türkiye finance	Total sum
Average 2007-2012	2.124	4.181	2.767	3.254	12.326
2012	2.758	5.064	3.939	3.595	15.356
2011	2.601	4.548	3.326	3.382	13.857
2010	2.175	4.266	2.850	3.403	12.694
2009	1.935	4.074	2.447	3.346	11.802
2008	1.796	3.806	2.245	3.185	11.032
2007	1.481	3.329	1.794	2.611	9.215

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

Table 3/b Increase Rate from Previous Year at Personnel Number (Participation Banks), 2007-2012

End of year	Albaraka Turk	Bank Asya	Kuveyt Turk	Türkiye finance	Increase rate from prev. year total sum
Average 2007-2012	16%	14%	19%	9%	14%
2012	6%	11%	18%	6%	11%
2011	20%	7%	17%	-1%	9%
2010	12%	5%	16%	2%	8%
2009	8%	7%	9%	5%	7%
2008	21%	14%	25%	22%	20%
2007	28%	40%	29%	19%	30%

## V. Evaluation of Sectorial Quantitative Data

### Turkish Currency Funds

Participation banks showed a quite better performance as of the end of 2012 compared to 2007 in funds of Turkish currency. As of the end of 2012, deposits of Turkish currency reached to approximately 29 billion Turkish Lira after an increase of **265 %**. **Among participation banks, Bank Asya has the biggest fund of Turkish currency. But highest average grown rate owner is Kuveyt Turk.** The second high performance belongs to the Albaraka Türk.

Table 4 Collected Turkish Currency Funds in Participation Banks, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	<b>3.586.632</b>	<b>6.143.803</b>	<b>3.819.808</b>	<b>4.980.901</b>	<b>18.531.143</b>
2012	5.535.572	9.241.391	6.768.530	7.444.772	28.990.265
2011	4.797.751	7.813.463	5.215.357	6.233.354	24.059.925
2010	4.358.934	7.662.288	4.496.126	5.712.662	22.230.010
2009	3.290.809	5.979.825	2.987.415	4.660.035	16.918.084
2008	2.029.617	3.603.487	2.111.414	3.300.252	11.044.770
2007	1.507.109	2.562.363	1.340.003	2.534.330	7.943.805

Table 4/b Increase Rate from Previous Year at Collected Turkish Currency Funds in Participation Banks, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	36%	35%	41%	28%	34%
2012	15%	18%	30%	19%	20%
2011	10%	2%	16%	9%	8%
2010	32%	28%	51%	23%	31%
2009	62%	66%	41%	41%	53%
2008	35%	41%	58%	30%	39%
2007	60%	56%	48%	44%	51%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

## Foreign Currency Funds, 2007-2012

Table 5/a Foreign Currency Funds, 2007-2012 (1.000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	2.513.238	3.686.636	3.248.656	2.660.856	12.109.385
2012	3.689.446	6.500.467	5.986.513	3.984.764	20.161.190
2011	3.246.996	4.583.580	4.702.970	3.275.811	15.809.357
2010	2.522.656	3.504.294	2.885.347	2.685.234	11.597.531
2009	2.173.836	3.156.753	2.370.842	2.222.455	9.923.886
2008	1.955.493	2.239.334	1.957.958	2.012.296	8.165.081
2007	1.490.999	2.135.387	1.588.305	1.784.575	6.999.266

Table 5/b Increase Rate from Previous Year at Foreign Currency Funds, 2007-2012 (1.000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007- 2012	21%	28%	28%	15%	23%
2012	14%	42%	27%	22%	28%
2011	29%	31%	63%	22%	36%
2010	16%	11%	22%	21%	17%
2009	11%	41%	21%	10%	22%
2008	31%	5%	23%	13%	17%
2007	23%	37%	9%	2%	17%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

The case in foreign currency funds is some different. Among participation banks, Bank Asya has the biggest fund and the highest increase of performance of foreign currency in 2012. KuveytTürk and Bank Asya have the highest average growing rate in the foreign funds. The second participant bank is KuveytTürk. As of the end of 2012, Foreign currency deposits of participation banks reached to approximately 20 billion Turkish Liras after an increase of 188 % compared to the end of 2007.

## Total Funds Collected, 2007-2012

Bank Asya is the leading participation bank with an amount of 15.7 billion Turkish Lira; In terms of total funds collected as the end of 2012. KuveytTürk, TürkiyeFinans and AlbarakaTürk follow Bank Asya respectively. As of the end of 2012, total funds collected by participation banks reached to approximately 49 billion Turkish Lira, after an increase of 229 % compared to the end of 2007. Figures of deposit banks and participation banks are shown below which facilitates to make a comparative analysis between them.

Table 6 Total Funds Collected, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	6.099.870	9.830.439	7.068.463	7.641.757	30.640.528
2012	9.225.018	15.741.858	12.755.043	11.429.536	49.151.455
2011	8.044.747	12.397.043	9.918.327	9.509.165	39.869.282
2010	6.881.590	11.166.582	7.381.473	8.397.896	33.827.541
2009	5.464.645	9.136.578	5.358.257	6.882.490	26.841.970
2008	3.985.110	5.842.821	4.069.372	5.312.548	19.209.851
2007	2.998.108	4.697.750	2.928.308	4.318.905	14.943.071

Table 6/b Increase Rate from Previous Year at Total Funds Collected, 2007-2011 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	28%	31%	33%	22%	28%
2012	15%	27%	29%	20%	23%
2011	17%	11%	34%	13%	18%
2010	26%	22%	38%	22%	26%
2009	37%	56%	32%	30%	40%
2008	33%	24%	39%	23%	29%
2007	39%	47%	24%	23%	33%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

Among participation banks, KuveytTürk has the highest increase rate for total funds in 2012, 2011 and 2010. The second bank is Bank Asya in the same 2012. KuveytTürk also has the highest average growing rate in the foreign funds with Bank Asya. The second participant bank is Bank Asya in the average rates.

Table 7 Fund Distributions of Participation and Deposit Banks, 2007-2012 (Million TL)

	2007	2008	2009	2010	2011	2012	2007-2012 Inc. Rate
Deposit Banks	356.984	453.485	507.258	614.681	656.276	708.079	%98
Participation Banks	14.943	19.210	26.842	33.828	39.869	49.151	%229
Deposit+Participation B.	371.927	472.695	534.100	648.509	696.145	757.230	%104

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-13) (PBAT, The Participation Banks Association of Turkey, 2012-13).

Table 8 Total Deposits in Deposit Banks, 2007-2012 (Million TL)

Year	2007	2008	2009	2010	2011	2012*
Total 1000TL	356.983.744	453.484.686	507.258.479	614.680.785	656.276.000	708.079.178
Inc. Rate		27	12	21	7	8

When figures are compared as of the end of 2007 and 2011, it is seen that participation banks have two times bigger percentage of increase than deposit banks on the percentage basis in terms of rate of increase. Participation banks taken into account, total fund + deposit in Turkey reaches 696 billion TL as of the end of 2011.

### Funds Utilized, 2007-2012

Increase rate of loan-fund utilization from the end of 2007 to the end of 2012 of participation banks higher than deposit bank's rate. **They are 226% and 166% respectively.**

Bank Asya is the leading participation bank with an amount of 16.1 billion Turkish Lira; In terms of funds utilized as the end of 2012. TürkiyeFinans, KuveytTürk and AlbarakaTürk

\*This Figure Strong Estimate. Calculated via increase rate of 9/2011 and 9/2012 on 12/2011 figures. (Exact figures will publish in the middle of May by BAT)

\*\*Very Strong Estimate. Deposit Banks 2012 Exact Figures will Publish in the Middle of May by BAT. This Figure Calculated via increase rate of 9/2011 and 9/2012 on 12/2011 figures.

follow Bank Asya respectively. It is seen that Bank Asya has the highest average increase rate for last six years. The second performance is belonging to KuveytTürk.

Table 9/a Funds Utilized by Participation Banks 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	5.644.337	9.871.255	6.916.123	8.092.604	30.524.319
2012	9.075.183	16.085.168	11.848.419	12.971.058	49.979.828
2011	7.273.906	13.141.380	10.360.917	10.327.232	41.103.435
2010	6.269.485	10.916.732	6.984.989	7.913.437	32.084.643
2009	4.675.617	8.221.427	4.904.932	7.109.233	24.911.209
2008	3.716.977	6.253.160	4.237.341	5.526.380	19.733.858
2007	2.854.852	4.609.665	3.160.138	4.708.285	15.332.940

Table 9/b Increase Rate from Previous Year at Funds Utilized by Participation Banks 2007-2012

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	28%	37%	36%	23%	26%
2012	16%	48%	28%	0%	0%
2011	16%	20%	48%	31%	28%
2010	34%	33%	42%	11%	29%
2009	26%	31%	16%	29%	26%
2008	30%	36%	34%	17%	29%
2007	44%	51%	47%	49%	46%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012-2013) (PBAT, The Participation Banks Association of Turkey, 2012-2013).

### Growth of Net Profit

Table 10/a Growth of Net Profit, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	<b>135.655</b>	<b>239.265</b>	<b>151.698</b>	<b>199.942</b>	<b>726.561</b>
2012	191.835	190.392	250.156	283.573	915.956
2011	160.870	216.090	195.042	231.587	803.589
2010	134.379	259.962	159.648	205.529	759.518
2009	105.626	301.281	127.133	171.388	705.428
2008	136.242	246.529	104.086	160.633	647.490
2007	84.979	221.337	74.123	146.943	527.382

Table 10/b Increase Rate from Previous Year at Net Profit, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	21%	7%	41%	13%	16%
2012	19%	-12%	28%	22%	14%
2011	20%	-17%	22%	13%	6%
2010	27%	-14%	26%	20%	8%
2009	-22%	22%	22%	7%	9%
2008	60%	11%	40%	9%	23%
2007	22%	51%	105%	5%	35%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).



Looking at deposit banks for the 2007-2012 periods, their profit increased by **%71** from 2007 to 2012, and reached to 23 billion TL in 2012. Increase rate of participant banks total net profit is **%74** from the end of 2007 to the end of 2012. The rate of participation bank's is a little higher than deposit banks. In terms of average profit per bank, deposit banks have too high figures compared to participation banks naturally. However it is also obvious that average scales, branch numbers and history of deposit banks are above participation banks. Türkiye Finans has the biggest share in total profitability of total participating banks at the end of 2011. Bank Asya, Kuveyt Türk and Al Baraka follow it respectively. Furthermore, Kuveyt Türk has the highest average net profit increase rate among the others. Kuveyt Türk has more stable rates at the last six years.

Table 11 Net Profit/Loss of Deposit Banks for the Year, 2007-2012

Year	2007	2008	2009	2010	2011	2012*
Total	13.467.940	11.851.867	18.489.700	20.518.216	19.849.000	23.064.743
Inc.Rate		-12	56	11	-3	16,2

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).

### Growth of Asset (Equity Capital)

Looking at the table regarding the equity capital growth, it is seen that participation banks increased their equity in 2012 **212%** according to the 2007. Looking at deposit banks for the 2007-2012 periods, their equity capital increased by **129 %** from 2007 to 2012.

Table 12/a Growth of Equity Capital, 2007-2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	826.295	1.732.301	1.043.379	1.321.276	4.923.251
2012	1.218.333	2.349.273	1.684.037	2.125.162	7.376.805
2011	1.004.251	2.137.426	1.437.978	1.613.659	6.193.314
2010	852.635	1.941.667	1.256.685	1.406.096	5.457.083
2009	710.666	1.707.894	807.312	1.193.692	4.419.564
2008	638.102	1.403.692	685.679	1.001.456	3.728.929
2007	533.780	853.856	388.583	587.592	2.363.811

Table 12/b Increase Rate from Previous Year at Equity Capital, 2007-2012 (1.000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	35%	26%	39%	31%	31%
2012	21%	10%	17%	32%	19%
2011	18%	10%	14%	15%	13%
2010	20%	14%	56%	18%	23%
2009	11%	22%	18%	19%	19%
2008	20%	64%	76%	70%	58%
2007	117%	35%	55%	35%	52%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).

\*This Figure Strong Estimate. Calculated via increase rate of 9/2011 and 9/2012 on 12/2011 figures. (Exact figures will publish in the middle of May by BAT)

Bank Asya has the biggest share in total equity capital of total participating banks at the end of 2012. Türkiye Finans, Kuveyt Türk and Al Baraka follow it respectively. Furthermore, Kuveyt Türk has the highest average equity capital increase rate among the others. Kuveyt Türk has biggest equity growing rate at the last six years.

Table 13 Equity Growth of Deposit Banks, 2007-2012 (1.000 TL)

Year	2007	2008	2009	2010	2011	2012*
Total	64.533.482	72.060.575	93.832.584	114.978.956	123.007.000	147.585.754
Inc. Rate		12	30	23	7	20

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012) (BAT, The Bank Association of Turkey, 2013)

### Growth of Total Assets

Table 14/a Growth of Total Assets in Participation Banks, 2007- 2012 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Average 2007-2012	7.681.482	13.178.446	10.012.683	10.542.867	41.415.478
2012	12.327.654	21.390.024	18.910.513	17.616.504	70.244.695
2011	10.460.885	17.190.099	14.897.592	13.528.353	56.076.929
2010	8.406.301	14.513.419	9.727.117	10.691.860	43.338.697
2009	6.414.914	11.608.955	6.904.526	8.699.643	33.628.038
2008	4.789.108	8.108.129	5.768.034	7.104.156	25.769.427
2007	3.690.029	6.260.048	3.868.318	5.616.687	19.435.082

Table 14/b Increase Rate from Previous Year at Total Assets in Participation Banks, 2007-12 (1000TL)

END OF YEAR	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	Increase Rate From Prev. Year Total Sum
Average 2007-2012	27%	32%	37%	27%	31%
2012	18%	24%	27%	30%	25%
2011	3%	18%	53%	27%	29%
2010	31%	25%	41%	23%	29%
2009	34%	43%	20%	22%	30%
2008	30%	30%	49%	26%	33%
2007	48%	50%	32%	36%	42%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).

When we look at the table of growth of assets, it is seen that participation banks provide in the 2007-2012 period according to deposit banks. Participation banks increased their total assets **261%** owing to deposit banks increased their total assets **119%**. Bank Asya has the biggest asset among participation banks, which is followed by Kuveyt Türk at the end of 2012.

\*This Figure Strong Estimate. Calculated via increase rate of 9/2011 and 9/2012 on 12/2011 figures. (Exact figures will publish in the middle of May by BAT)

Similarly in this case, KuveytTürk has the highest average increase rate for 2007-2012 periods. Bank Asya, Al Baraka and TürkiyeFinans follow it respectively

Table 15 Growth of Total Assets in Deposit Banks, 2007- 2012

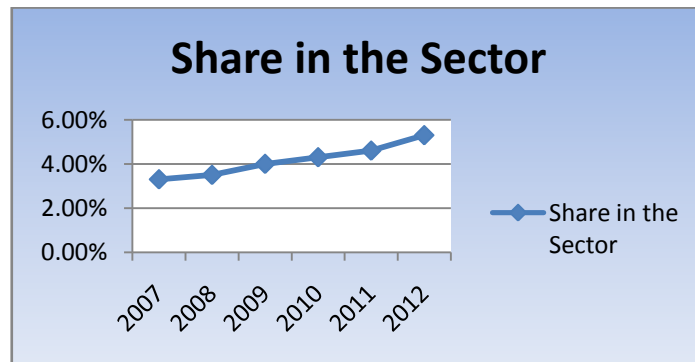
Year	2007	2008	2009	2010	2011	2012*
Total	542.293.125	682.936.916	771.511.791	930.947.266	1.119.911.000	1.190.124.718
Inc.Rate		26	13	21	20	6,3

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).

Table 16 The Shares of Participation Banks within the Sector

Year	Sector	Deposit Banks		Dev. and Inv. Banks		Participation Banks	
		Total Assets	Ratio in the Sector	Total Assets	Ratio in the Sector	Total Assets	Ratio in the Sector
2012	1.315.759	1.190.125*	90,5%	55.389*	4,2%	70.245	5,3%**
2.011	1.217.695	1.119.911	92,0%	41.636	3,4%	56.148	4,6%
2.010	1.006.667	932.371	92,6%	30.958	3,1%	43.339	4,3%
2.009	834.014	773.357	92,7%	27.029	3,2%	33.628	4,0%
2.008	732.536	683.823	93,4%	22.943	3,1%	25.770	3,5%
2.007	581.606	543.272	93,4%	18.888	3,2%	19.445	3,3%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2011) (BAT, The Bank Association of Turkey, 2012) (PBAT, The Participation Banks Association of Turkey, 2012).



The table clearly shows that The Participation banks have increased the their shares in the sector. While the share of Participation banks is %3,3 in 2007, the share reaches to %5,3 in the end of 2012. The increasing rate of sector share is %61 as a number.

\*This Figure Strong Estimate. Calculated via increase rate of 9/2011 and 9/2012 on 12/2011 figures. (Exact figures will publish in the middle of May by BAT)

\*\* Very Strong Estimate. Deposit Banks Exact Figures will Publish in the Middle of May.

## VI. Conclusions

Participation banks, with their old name Special Finance Houses, are institutions collecting funds similar to deposit through private current accounts and accounts giving right to profit/loss participation, and utilizing funds through methods such as production support, partnership of profit and loss, leasing, document against payment. In Turkey, the foundation of these institutions has been allowed since 1984. Their number which has increased to 6 decreased to 4 eventually parallel to the consolidation of deposit banks. However growth of volume and branch number in the finance sector especially in the last years is also extremely valid for these institutions. Their share is small today in total sector but it grows in a stable manner with their higher growth rate than other banks. In 2001, participation banks had total asset amount of 2,4 billion TL which meant a share of 1,08 % in the total assets of the sector. These amounts and shares were 7,3 billion TL and 2,34 % in 2004, 13.730 billion TL and 2,83 % in 2006, 25.769 billion TL and % 3,64 in 2008, and 56.148 billion TL and 5,3 % as of the end of 2012.

- These companies which are subject to most limitations of general arrangements and loan limitations in the Banking Act no. 5411 differ from deposit banks at most in terms of that they don't undertake the risk of interest. **Because these kinds of banks don't undertake the risk of interest which is one of the greatest risks which have to be managed in banking sector, we can talk about an asset-liability balance which is less sensitive to financial crisis.** However not to undertake the risk of interest, in these kinds of banks, **differently from deposit banks, eliminates the opportunity to obtain sudden and high institutional profit based on interest rate difference.**
- Putting three public banks and one SIDF bank aside, **while 28 private deposit banks have 254 branches** on an average, **each of 4 participation banks has 207 branches on an average.** However in terms of the increase rate of branches from 2007 to 2012, it is seen that participation banks reached almost three times bigger increase rate of branch numbers than deposit banks.
- **Increase rate of loan-fund utilization** from the end of 2007 to the end of 2012 of participation banks higher than deposit bank's rate. They are **226% and 166 %** respectively.
- **Total net profits** increasing rate of participant is **%74** from the end of 2007 to the end of 2012. Looking at **deposit banks** for the 2007-2012 period, their profit **increased by %71** from 2007 to 2012, and reached to 18,2 billion TL in 2011. The rate of participation banks is a little higher than deposit banks. In terms of average profit per bank, deposit banks have too high figures compared to participation banks naturally. However it is also obvious that average scales, branch numbers and history of deposit banks are above participation banks
- It is seen that **participation banks increased their equity in 2012 212% according to the 2007.** Looking at deposit banks for the 2007-2012 periods, their equity capital increased by **129 %** from 2007 to 2012. **The difference between them is important.**
- Thus those given results also all support our thesis in this paper.
- **Meanwhile,** the participation banks also have some problems for instance they have needed such as the Interbank systems which provide urgent proper credits for the depository banks in the short run. Whereas, this situation negatively hinders the participation banks performance. Because they are sharing nearly all of their funds

for the creditors or investors who uses them for leasing, production, sales, trade, export and imports which composed the real sector of the economy.

- For that reason it is very vital interest for the participation banks forming the similar interbank system which would increase their customers and operational transactions, too. For instance, the establishment of guaranty insurance system among the participation banks positively influenced their expansion in the market.
- Nevertheless, the depository banks they are the corporations so their rulers and executive bodies are responsible fully for their operations and in any case, the state quarantined their possible bankruptcy situations, but in the Participation Banking systems there was no such kind of full responsibility or insurance system in their financial credit operations because of joint losses or gains. In both theory and practice there is a legal gap that is why it led to some corruptions and abuses, the participation banks and companies in Turkey and European countries, too. This problem has been partially solved for Turkey. Those banks and companies forced to adopt the status and the legal structural establishment of banks and companies. Some of them applied to be part of the Capital Stock Exchange Market. That is why they could be checked and controlled by the state audit system.
- This study examines the case of each participation bank among each other. The tables and figures show the each participation bank ordering at 9 different criteria. In conclusion, Bank Asya is the leader among the four banks in the eight criteria, Türkiye Finans is the first profitable bank.
- This study examines the more important thing for these banks. The average increasing rate for last five years has been calculated in this study. This figures show that Kuveyt Türk Participation Bank has the highest average in the almost all of criteria.
- This study shows that The Participation banks have increased their shares in the sector also. While the share of Participation banks is %3,3 in 2007, the share reaches to %5,3 in the end of 2012. The increasing rate of sector share is %61 as a number.

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