

THE PARTICIPATION BANKING AND ITS COMPARISON WITH DEPOSIT BANKING IN THE TURKISH FINANCE MARKET

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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 2009-2010. One of the discussion topic in order to eliminate problems caused by the conventional banking system is alternative financing systems. In our country, 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 our country. In this study, we try to find out the place and the importance of participation based banking with the various sub-headings especially in our country. We examine the comparative review 2007-2009 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 goal 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 a large volume of 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 have 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, a 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 centre 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.

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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 categorized in Islamic Commercial Banks groups (Canbaş & 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 Mit Ghamr 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 this 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 – Türkiye Bankalar Birliği), The Participation Banks Association of Turkey (PBAT – Türkiye Katılım Bankaları Birliği), Banking Regulation and Supervision Agency (BRSA – Bankacılık Düzenleme ve Denetleme Kurumu-BDDK), Savings Insurance Deposit Fund (SIDF – Tasarruf Mevduatı Sigorta Fonu-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 utilize 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:

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

Kuveyt Türk Evkaf Finance Institution Inc.: Kuveyt Türk, founded in 1989 at the status of Special Finance Institution, changed its name in May 2006 as Kuveyt Türk Participation Bank Inc (The History of Kuveyt Türk, 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. Has been taken over by Ülker Group, 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. It is very interesting that bank still has been in liquidation, since 2001. However, it has been also exempted from the executive authority of newly founded Turkish Depository Insurance Fund (TMSF) which took over, without hesitation, the management of the corrupted financial corporations and companies in Turkey. That is why, many depositors had sued this bank in Turkish Commercial Banks, but both low courts and High Courts decisions were very far away on touching the tenets of the matter¹. 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. But we don’t know how much deposits assured. But the other corporate banks gave assurance at most for amount of 50 000 TL.

Participation banks operating today among the institutions mentioned above are Albaraka Türk Participation Bank Inc., Kuveyt Türk Participation Bank Inc., Asya Participation Bank Inc. and Türkiye Finans 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

¹ The essence of the matter is related to the liquidation of this bank has not been accomplished! Why?. This bank also is member of İstanbul Capital Market, too. Their shareholders lost; it is very normal that earning dividends as losses or profits in a free market system. But the Court based its decision putting the depositors of the bank as shareholders who may earn loss or profits. In addition, it has omitted that why İhlas Finance went on bankruptcy. In Turkey, because of macroeconomic instability till 2001, majority of holdings and corporations established their own banks and financial institutions, thus those Holdings like İhlas Holding has utilized their banks and financial institutions as subsidiary or branch company as similar to other business corporations

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 closed².

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.

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. Gülten Kazgan also underlined that these financial institutions acts and function as leasing companies (Kazgan, 1999). 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

² Published in Official Journal no. 26333. Banking Regulation and Supervision Agency (BRSA) / Bankacılık Düzenleme ve Denetleme Kurumu (BDDK), article 7, 2006

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 (Akın, 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) (Akın, 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 2009, the number of deposit banks founded in Turkey is 32. While 3 of them are based on public capital, 11 of them are based on domestic private capital, and 17 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 8.741 in 2008, and reached to 8.983 with an increase of 2.8 % as of the end of 2009. The number of branches of participation banks was 530 in 2008, and reached to 560 with an increase of 5,7 % as of the end of 2009. 3 public bans excluded, each of 29 private deposit banks has average 223 branches, and each of 4 participation banks has average 140 branches. Looking at the growth rates of the number of their branches from 2008 to 2009, it is seen that the growth rate of branches of participation banks is two times more than deposit banks. The table below shows the position of participation banks within themselves.

Table 1. Growth of Branch Numbers, 2007-2009

Branch Number / Period	ALBARAKA TÜRK	Increase %	BANK ASYA	Increase %	KUVEYT TÜRK	Increase %	TÜRKİYE FİNANS	Increase %	TOTAL SUM	Increase %
Dec. 07									422	
March 08	81		119		95		146		441	4,5
June 08	90	11,1	124	4,2	100	5,3	157	7,5	471	6,8
Sep. 08	94	4,4	142	14,5	113	13,0	167	6,4	516	9,6
Dec. 08	100	6,4	143	0,7	113	0,0	174	4,2	530	2,7
March 09	100	0,0	149	4,2	113	0,0	178	2,3	540	1,9
June 09	100	0,0	149	0,0	113	0,0	178	0,0	540	0,0
Sep. 09	100	0,0	152	2,0	120	6,2	178	0,0	550	1,9
Dec. 09	101	1,0	158	3,9	121	0,8	180	1,1	560	1,8

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Growth of Personnel Number

As of the end of 2009, totally, 184.204 employees are employed in the banking sector in Turkey. While 167.063 of them are employed in deposit banks, 11.802 of them are employed in participation banks. Personnel number of deposit banks was 166.325 in 2008, and reached to 167.063 with an increase of 0.4 %. Personnel number of participation banks was 11.032 in 2008, and reached to 11.802 with an increase of 7.0 %. Moving from that point, looking at the increase speed of personnel numbers from 2008 to 2009, it is seen that participation banks reached a quietly higher personnel number increase rate than deposit banks.

Table 2. Employment in the Banking Sector, 2008-2009

Employment in the Banking Sector	2008	2009	Increase %
Deposit banks	166.325	167.063	0,4
Public banks	43.333	44.856	3,5
Private banks	82.158	82.270	0,1
Fund banks	267	261	-2,2
Foreign banks	40.567	39.676	-2,2
Development and investment banks	5.273	5.339	1,3
Public banks	4.146	4.165	0,5
Private banks	794	842	6,0
Foreign banks	333	332	-0,3
Other banks-Total	171.598	172.402	0,5
Participation Banks	11.032	11.802	7,0
Total	182.630	184.204	0,9

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

As of the end of 2009 (December 2009), the average personnel number for branch in participation banks is as follows:

Bank	Total Personnel No./ Branch No.	Average Personnel No. for Branch
Albaraka Türk	(1.935/101)	19
Bank Asya	(4.074/158)	25
Kuveyt Türk	(2.447/121)	21
Türkiye Finans	(3.346/180)	19
Total Sum	(11.802/560)	21

Actually, Bank Asya Participation Bank has the biggest personnel number and average personnel number. Analyzing participation banks in Yalova, Albaraka Türk Participation Bank has the biggest personnel number, i.e. 14. In deposit banks, average personnel number reached by dividing the total personnel number to the branch number is $167.063/8.983=18,6$. The same average is 21 in participation banks. This means that participation banks employ 13 % more employees for branch than deposit banks.

Table 3. Growth of Personnel Number (Participation Banks), 2007-2009

Period	ALBARAKA TÜRK	Increase %	BANK ASYA	Increase %	KUVEYT TÜRK	Increase %	TÜRKİYE FİNANS	Increase %	TOTAL SUM	Increase %
Dec. 07									9215	
March 08	1.582		3.554		1.897		2.865		9.898	7,4
June 08	1.684	6,4	3.571	0,5	2.046	7,9	3.020	5,4	10.321	4,3
Sep. 08	1.746	3,7	3.748	5,0	2.233	9,1	3.140	4,0	10.867	5,3
Dec. 08	1.796	2,9	3.806	1,5	2.245	0,5	3.185	1,4	11.032	1,5
March 09	1.817	1,2	3.812	0,2	2.272	1,2	3.173	-0,4	11.074	0,4
June 09	1.859	2,3	3.833	0,6	2.324	2,3	3.200	0,9	11.216	1,3
Sep. 09	1.903	2,4	3.917	2,2	2.400	3,3	3.280	2,5	11.500	2,5
Dec. 09	1.935	1,7	4.074	4,0	2.447	2,0	3.346	2,0	11.802	2,6

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

V. Evaluation of Sectoral Quantitative Data Turkish Currency Funds

Participation banks showed a quite better performance as of the end of 2009 compared to 2008 in funds of Turkish currency. As of the end of 2009, deposits of Turkish currency reached to approximately 17 billion Turkish Lira after an increase of 53 %. In the same period, the increase of Turkish currency deposits of deposit banks was 14 %. Among participation banks, Bank Asya has the biggest fund of Turkish currency. Bank Asya and Albaraka Türk Participation Bank has the highest increase of performance in 2009.

Table 4. Collected Turkish Currency Funds in Participation Banks, 2007-2009 (1000TL)

Period	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Dec. 07					7.943.805
March 08	1.773.148	2.805.072	1.583.839	2.712.776	8.874.835
June 08	1.648.738	3.081.433	1.632.654	2.592.343	8.955.168
Sep. 08	1.781.602	3.094.955	1.727.540	2.840.535	9.444.632
Dec. 08	2.029.617	3.603.487	2.111.414	3.300.252	11.044.770
March 09	2.441.543	4.464.748	2.467.083	3.801.235	13.174.609
June 09	2.528.619	4.705.865	2.561.541	3.861.546	13.657.571
Sep. 09	2.822.325	5.463.422	2.677.973	4.243.509	15.207.229
Dec. 09	3.290.809	5.979.825	2.987.415	4.660.035	16.918.084
2008-2009 Increase for the Year (%)	62	66	41	41	53

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Foreign Currency Funds, 2007-2009

Table 5. Foreign Currency Funds, 2007-2009 (1.000TL)

Period	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
					6.999.266
March 08	1.795.327	2.398.130	1.679.267	1.783.078	7.655.802
June 08	1.843.318	2.701.868	1.837.144	2.198.136	8.580.466
Sep. 08	1.948.592	2.466.363	1.818.134	2.151.112	8.384.201
Dec. 08	1.955.493	2.239.334	1.957.958	2.012.296	8.165.081
March 09	2.073.177	2.322.446	2.149.807	2.241.740	8.787.170
June 09	2.156.367	2.706.448	2.205.278	2.060.746	9.128.839
Sep. 09	2.146.904	3.107.923	2.311.492	2.150.941	9.717.260
Dec. 09	2.173.836	3.156.753	2.370.842	2.222.455	9.923.886
2008-09 Incr. for the Year (%)	11	41	21	10	22

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

A similar case to Turkish currency funds is also valid for foreign currency funds. Among participation banks, Bank Asya has the biggest fund and the highest increase of performance of foreign currency in 2009. Participation banks showed a quite better performance compared to deposit banks in terms of foreign currency funds. As of the end of 2009, Turkish currency deposits of participation banks reached to approximately 10 billion Turkish Lira after an increase of 22 % compared to the end of 2008.

Total Funds Collected, 2007-2009

Bank Asya is the leading participation bank with an amount of 9.1 billion Turkish Lira; In terms of total funds collected as the end of 2009. Türkiye Finans, Albaraka Türk and Kuveyt Türk participation banks follow Bank Asya respectively. As of the end of 2009, total funds collected by participation banks reached to approximately 27 billion Turkish Lira, after an increase of 40 % compared to the end of 2008. Figures of deposit banks and participation banks are shown below which facilitates to make a comparative analysis between them.

Table 6. Total Funds Collected, 2007-2009 (1000TL)

Period	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM
Dec. 07					14.943.071
March 08	3.518.475	5.203.202	3.263.106	4.495.854	16.480.637
June 08	3.492.056	5.783.301	3.469.798	4.790.479	17.535.634
Sep. 08	3.730.194	5.561.318	3.545.674	4.991.647	17.828.833
Dec. 08	3.985.110	5.842.821	4.069.372	5.312.548	19.209.851
March 09	4.514.720	6.787.194	4.616.890	6.042.975	21.961.779
June 09	4.684.986	7.412.313	4.766.819	5.922.292	22.786.410
Sep. 09	4.969.229	8.571.345	4.989.465	6.394.450	24.924.489
Dec. 09	5.464.645	9.136.578	5.358.257	6.882.490	26.841.970
2008-09 Incr. for the Year (%)	37	56	32	30	40

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

When figures are compared as of the end of 2008 and 2009, it is seen that participation banks have three times bigger percentage of increase than deposit banks on the percentage basis in terms of rate of increase, even if participation banks have quite lower levels than deposit banks in terms of nominal values of Turkish currency funds deposit, foreign currency funds deposit, and total Turkish-foreign currency deposit. As of the end of 2009, while total deposit of 32 deposit banks is 507 billion TL, 4 participation banks have approximately 27 billion TL of total funds collected. While deposit banks have a 12 % deposit increase from the end of 2008 to the end of 2009, participation banks increased their funds by 40 % in the same period. Participation banks taken into account, total fund + deposit in Turkey reaches 534 billion TL as of the end of 2009.

Table 7. Fund Distribution of Participation and Deposit Banks, 2007-2009 (Million TL)

		2007	2008	Increase %	2009	Increase %
Deposit Banks	Turkish Currency	232.488	291.452	25	333.090	14
	Foreign Currency	124.496	162.032	30	174.168	7
	Total	356.984	453.485	27	507.258	12
Participation Banks	Turkish Currency	7.944	11.045	39	16.918	53
	Foreign Currency	6.999	8.165	17	9.924	22
	Total	14.943	19.210	29	26.842	40
Deposit + Participation Banks	Turkish Currency		302.497		350.008	16
	Foreign Currency		170.197		184.092	8
	Total	371.927	472.695	27	534.100	13

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Funds Utilized, 2007-2009

Increase rates of loan-fund utilization from the end of 2007 to the end of 2008 of participation banks and other banks are at very close, 29% and 30 % respectively. According to the same figures as of the end of 2009, it is seen that participations banks reached a quite higher increase rate compared to other banks. As of the end of 2009, while other banks increased their loans only by 4 %, participation banks have and increase rate of 26 %. This situation shows also parallelism to increase rates of fund and deposit. It is seen that Bank Asya and Türkiye Finans have close figures of total and increase, and take the lead among participation banks. Another point which attracts attention is that Albaraka Türk which has the lowest nominal figures among participation banks in terms of fund utilization showed a big increase of high rates in the third and fourth quarters of 2009, and got quite close to Kuveyt Türk Participation Bank.

Table 8. Funds Utilized by Participation Banks (1000TL)

Period	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FİNANS	TOTAL SUM	Increase Rate
Dec.07					15.332.940	
Mar.08	3.310.810	5.366.644	3.740.426	4.888.801	17.306.681	12,9
Jun.08	3.451.821	5.697.261	3.998.918	5.034.674	18.182.674	5,1
Sep.08	3.565.823	6.065.407	4.240.254	5.384.245	19.255.729	5,9
Dec.08	3.716.977	6.253.160	4.237.341	5.526.380	19.733.858	2,5
Mar.09	3.716.108	6.496.048	4.276.045	5.972.382	20.460.583	3,7
Jun.09	3.865.036	6.850.278	4.218.855	6.265.355	21.199.524	3,6
Sep.09	4.216.317	7.469.157	4.809.944	6.692.911	23.188.329	9,4
Dec.09	4.675.617	8.221.427	4.904.932	7.109.233	24.911.209	7,4
2007-2008 Increase for the Year (%)					29	
2008-09 Increase	26	31	16	29	26	

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Table 9. Distribution of Other Banks' Loans, 2007-2009 (1000 TL)

Loan Type / Year	2007	2008	2009
DIRECTED LOANS			
Agriculture	7.480.838	9.834.008	11.490.009
Real Estate	104.980	83.438	0
Vocational	3.227.483	3.781.739	4.476.772
Maritime	0	0	6.105
Tourism	1.975	3.240	232.851
Other	7.008.740	8.751.405	9.779.776
INDIRECTED LOANS	261.173.596	341.407.149	353.419.248
TOTAL	278.997.612	363.860.979	379.404.761
Total Increase for the Year (%)		30 %	4%

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010). Collected as of 31.12.2007-2008-2009 from the table called "Loan Distribution according to Cities and Regions"

Growth of Net Profit

Table 10. Growth of Net Profit, 2008-09 (1000TL)

NET PROFIT/Yearly Cumulative	ALBARAKA TÜRK	Share in Total Profit%	BANK ASYA	Share in Total Profit%	KUVEYT TÜRK	Share in Total Profit%	TÜRKİYE FINANS	Share in Total Profit	TOTAL SUM %	Percent of Yearly Increase
Dec. 2007									527.382	
March 08	27.562	22,6	37.339	30,7	20.179	16,6	36.682	30,1	121.762	
June 08	58.540	21,1	99.599	35,8	47.909	17,2	71.957	25,9	278.005	
Sep. 08	91.058	20,3	161.642	36,1	84.743	18,9	110.866	24,7	448.309	
Dec. 08	136.242	21,0	246.529	38,1	104.086	16,1	160.633	24,8	647.490	23
March 09	30.300	20,0	52.655	34,8	44.657	29,5	23.697	15,7	151.309	
June 09	53.982	15,2	142.100	40,0	83.190	23,4	75.957	21,4	355.229	
Sep. 09	82.273	15,5	219.586	41,4	107.392	20,3	120.880	22,8	530.131	
Dec. 09	105.626	15,0	301.281	42,7	127.133	18,0	171.388	24,3	705.428	9
Average		18,1		38,9		19,1		23,8		

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Total profits increased by 23 % from 2007 to 2008, and by %8,94 from 2008 to 2009. Bank Asya has the biggest share in total profitability of the sector which is around 38,9 %. Türkiye Finans follows it with a percentage of 23,8, and two other participation banks follow them with close rates to each other, i.e. circa 18-19 %. Looking at deposit banks for the same period, on the TL basis, their profit decreased by 12 % from 2007 to 2008, and reached to 18,5 billion TL in 2009

after an increase of 56 % from 2008 to 2009. While deposit banks have a profit increase of 37 % from 2007 to 2009 on TL basis, participation banks increased their profit by 34 % from 2007 to 2009 on TL basis. 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.

Table 11. Net Profit/Loss of Deposit Banks for the Year, 2007-2009

Net Profit/Loss for the Year, 2007-2009						
		2007	2008	Increase	2009	Increase
Deposit banks	Million TL	13.468	11.852	%-12	18.490	%56
	Million Dolar	11.617	7.788	%-33	12.432	%60

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Growth of Asset

Looking at the table regarding the asset growth, it is seen that participation banks increased their asset in 2008 more than in 2007. They made a total increase of 1.4 billion TL. And in 2009, they reached an increase rate of 58 %. 2009 was not so bright for deposit banks in terms of asset. While deposit banks increased their asset only by 12 % in 2008 on TL nominal basis, it means that total equity decreased by 15 % on Dollar basis. Using the same exchange rate, participation banks increased their equity by % 20 on Dollar basis. Participation banks maintained their high increase of asset also in 2009 even if not the same percentage. As of the end of 2009, compared with 2008, total equity increased to 4,420 billion TL with an increase rate of 19 %. In the same period, 32 deposit banks increased their asset by 30% and it totally reached to 93,833 billion TL.

Table 12. Growth of Asset, 2007-2009 (1000TL)

ASSET PERIOD	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FINANS	TOTAL SUM	Increase %	Total Yearly %
Dec.07					2.363.811		
Mar.08	529.051	891.195	408.762	624.274	2.453.282	3,8	
Jun.08	560.400	1.256.762	629.502	659.549	3.106.213	26,6	
Sep.08	592.547	1.318.805	666.333	698.458	3.276.143	5,5	
Dec.08	638.102	1.403.692	685.679	1.001.456	3.728.929	13,8	58
Mar.09	633.735	1.456.785	730.336	1.027.663	3.848.519	3,2	
Jun.09	658.373	1.547.360	763.369	1.088.424	4.057.526	5,4	
Sep.09	687.954	1.626.760	787.571	1.147.336	4.249.621	4,7	
Dec.09	710.666	1.707.894	807.312	1.193.692	4.419.564	4	19
Share inn Dec.09	16,1%	38,6%	18,3%	27,0%	100,0%		

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Two with the highest asset among participation banks are first, Bank Asya and second, Türkiye Finans. These two participation banks own 65,6 % of total asset. And Kuveyt Türk and Albaraka together own 34,4 % of total equity.

Table 13. Equity Growth of Deposit Banks, 2007-09

EQUITY OF OTHER BANKS, 2007-2009						
		2007	2008	Increase	2009	Increase
Deposit Banks	Million New TL	64.533	72.061	%12	93.833	%30
	Million Dollar	55.666	47.352	%-15	63.089	%33

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Growth of Total Assets

Table 14. Growth of Total Assets in Participation Banks, 2007- 2009 (1000TL)

Total Assets Period	ALBARAKA TÜRK	BANK ASYA	KUVEYT TÜRK	TÜRKİYE FINANS	TOTAL SUM	Increase %	Total Yearly Increase
Dec. 07					19.435.082		
March 08	4.224.371	7.003.186	4.408.024	5.852.389	21.487.970	10,6	
June 08	4.255.003	7.867.730	4.858.169	6.250.086	23.230.988	8,1	
Sep. 08	4.439.465	7.609.639	4.953.797	6.451.095	23.453.996	1,0	
Dec. 08	4.789.108	8.108.129	5.768.034	7.104.156	25.769.427	9,9	33%
March 09	5.368.854	9.119.818	5.896.984	7.890.309	28.275.965	9,7	
June 09	5.602.438	9.821.492	6.223.879	7.987.880	29.635.689	4,8	
Sep. 09	5.909.983	11.111.369	6.439.437	8.363.902	31.824.691	7,4	
Dec. 09	6.414.914	11.608.955	6.904.526	8.699.643	33.628.038	5,7	30%
Share in Total	19,1%	34,5%	20,5%	25,9%	100,0%		

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

When we look at the table of growth of assets, it is seen that participation banks provide in 2008 a better increase of asset than in 2007. Participation banks increased their total assets 6,3 billion TL and reached 33 % increase rate in this year. In 2008, deposit banks increased their total assets 26 % on TL nominal basis, and decreased 4 % on Dollar basis. Applying the same parity to the figures of participation banks, participation banks increased their total assets 1 % on Dollar basis in the same period. Participation banks maintained a similar rate of asset increase also in 2009. They increased Their total assets reached to 33,628 billion TL as of the end of 2009 with an increase of 30 % in 2009. In the same period, total assets of 32 deposit banks reached to a deposit of 775,512 billion TL with an increase of 13 %.

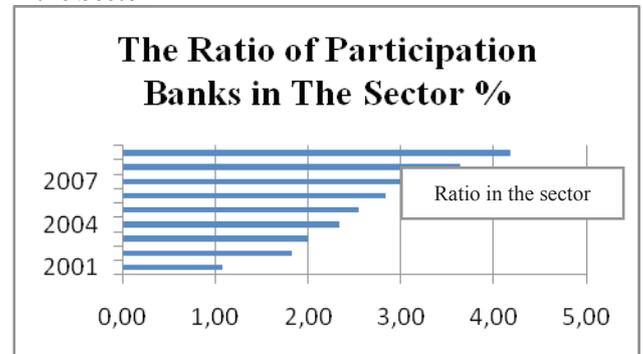
Bank Asya has the biggest asset among participation banks, which is followed by Türkiye Finans. These two participation banks have 60,4 % of total assets of participation banks. Kuveyt Türk and Albaraka together have 39,6 % of total assets.

Table 15. Growth of Total Assets in Deposit Banks, 2007- 2009

ASSETS 2007- 2009						
		2007	2008		2009	
Deposit Banks	Million New TL	542.293	682.937	26	771.512	13
	Million Dollar	467.776	448.769	-4	518.733	16

Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

Table 16. The Shares of Participation Banks within the Sector



Source: Collected from data provided by (BAT, The Bank Association of Turkey, 2008) (BAT, The Bank Association of Turkey, 2009) (BAT, The Bank Association of Turkey, 2010) (PBAT, The Participation Banks Association of Turkey, 2010).

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 33.628 billion TL and 4,18 % as of the end of 2009.

These institution 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 aside, while 29 private deposit banks have 223 branches on an average, each of 4 participation banks has 140 branches on an average. However in terms of the increase rate of branches from 2008 to 2009, it is seen that participation banks reached a two times bigger increase rate of branch numbers than deposit banks.

The average rate of “total personnel number/branch number” is 21. This means that participation banks employ 13 % more personnel than the average of deposit banks per branch.

Setting 2007 apart, and comparing 2008 and 2009 figures, it is seen that participation banks have three times bigger percentage of increase than deposit banks on the percentage basis in terms of rate of increase, even if participation banks have quite lower levels than deposit banks in terms of nominal values of Turkish currency funds deposit, foreign currency funds deposit, and total Turkish-foreign currency deposit.

While it is seen that increase rates of loan-fund utilization from the end of 2007 to the end of 2008 of participation banks and other banks are at very close, 29% and 30 % respectively, it draws attention that participations banks reached a quite higher increase rate compared to other banks according to the figures as of the end of 2009. As of the end of 2009, while other banks increased their loans only by 4 %, participation banks have and increase rate of 26 %.

Total profits increased by 23 % from 2007 to 2008, and by %8,94 from 2008 to 2009. Looking at deposit banks for the same period, on the TL basis, their profit decreased by 12 % from 2007 to 2008, and reached to 18,5 billion TL in 2009 after an increase of 56 % from 2008 to 2009. While deposit banks have a profit increase of 37 % from 2007 to 2009 on TL basis, participation banks increased their profit by 34 % from 2007 to 2009 on TL basis.

It is seen that participation banks increased their asset in 2008 quite more than in 2007. In 2009, they made a total increase of 1.4 billion TL, and reached an increase rate of 58 %. 2009 was not so bright for deposit banks in terms of asset. As of the end of 2009, compared with 2008, their total equity increased to 4,420 billion TL with an increase rate of 19 %.

Proportioning equities to total assets, and therefore to total liabilities, the result rate is 13 % for participation banks consolidation, while it is 12 % for deposit banks. However this rate has not to be confused with the Capital Adequacy Ratio which takes place in Basel regulations.

Table 17. THE PARTICIPATION BANKS in TURKEY (March 2011)

Total Assets	45 billion TL= 28 billion \$
Collected Total funds	34 billion TL= 21.12 billion\$
Used Funds	33 billion TL=20.5 billion\$
Net profits- 3 months	169 million TL=105 million \$
Credit Customers number	911 thousand
Owners of Credit cards	793 thousand
The Numbers of branches	633
Numbers of Personnel	12703 (December 2010)

Sources: Zaman Newspaper, 19 May 2011, p.8, and BRSA

As it seen on the table by comparing to the 2009 year' data the total assets grew %22,4, the collected funds grew % 26 and the used credits grew %36 so those ratios which systemically maintains its development though economic crises in the world.

Thus that 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 provides 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, in 2010 data, justified also our arguments in this article.

Nevertheless, the depository banks they are the corporations so their rulers and executive bodies are responsible fully form 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 yet. 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.

There are 300 the Participation Banks in the world. They collected approximately 700 billion\$ funds and they don't only operate in the Asian countries but also in the western countries, too(Tevfik Bilgin). It would not be exaggerations to compare the micro credit systems with the participation banking systems which helps internalizations -somehow very close to the western banking systems in the Asian societies as the developments of the establishment of financial institutions in their economic order.

Table 18. The GROWTH OF PARTICIPATION BANKS March 2011

	Participation Banks	Depository Banks	Total 1000\$
Total Funds	21.12billion\$	361billion\$	382.12\$
Credits	20.5billion\$	330billion\$	350.5\$
Assets	28billion\$	622billion\$	650\$
Banks Numbers	4	44	48
Branches Numbers	633	9677	10.210

Sources: Güngör Uras- BRSA, Milliyet Newspaper.

By Comparing both depository banks and participation banks in Turkey both also improves but the latter progress more in the medium term the Participation Banks' share in the Turkish Financial Markets, would rise from %4.5 to %10 said the head of Audit of Union of Bank Executive Body in Turkey is Tevfik Bilgin. (Güngör Uras, Ibid)

Hayrettin Karaman is the advisor of participation banks who related to the growth of -murabaha- installment sales transactions as something very close to the capitalist banking systems individual or customer based consumer credits. (<http://www.hayrettinkaraman.net/kitap/ekonomi/0060.htm>) But he says in this system inflationary depreciation value and profit values added over the price of the goods delivered. In practice there is so close with the cost of the credit interest based banking systems with the participation banks. But the intentions of the dealers here not to get the interest cost from the traders. (<http://www.hayrettinkaraman.net/yazi/hayat/0300.htm>)

Bernard Lewis, underlined that though the nonwestern societies very much accustomed to free trade regimes more than western societies by forming a great single uniform market culture during the Middle Ages, but later on, they were not able to overcome or comprehend or compete with the dynamism of the western industrial capitalist market economy. Furthermore, the paper based monetary economy's inflationary, interest problem and other fiscal or national market policy at there were not able to be developed a financial banking system with their own cultural internalization like Max Weber Protestan Ethics of Capitalism(Bernard Lewis, Middle East, 7. Edition pp.199-225).

Upon that, Güneri Akalın, it is problem of eastern societies that they don't know how to price the time in the economic activities(Interview). In addition, Hayrettin Karaman stressed the fact that there is no problem in transactions of real goods in the commercial bargaining -like barter economy- in somehow but the inflation problems for the future markets and forward sales which punish sellers or creditors(Interview, Tvnet, 2010 November). At last, we should point out that in the world there is a tendency to lower high level the interest based financial approaches or mentality to increase the economic efficiency in the global, regional and national level in the postkeynesian or Maastricht era. In this current world financial crises, the zero level interest approaches may contribute more in production and investment in the world economy.

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