T.R.
SAKARYA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

COMPARING FINANCIAL AND SOCIAL PERFORMANCES OF TRADITIONAL AND PARTICIPATION BANKS IN TURKEY (2005- 2016)

MASTER'S THESIS

Imanou AKALA

Faculty	**: Business**
Department	**: Accounting and Finance**

Supervisor: Assist. Prof. Mustafa Kenan ERKAN

MAY – 2018

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"This thesis has been accepted unanimously with majority of vote by the following examination committee on 16 / 04 / 2018"

Jury Members	Convictions	Signature
Dr. Öğr. Üyes Mustafa Kenan ERKAN		
Dr. Öğr. Üyes Elmas YILDIZ HANEDAR		
Dr. Öğr. Üyes Atıl TAŞER		

SAKARYA ÜNİVERSİTESİ	T.C. SAKARYA ÜNİVERSİTESİ İŞLETME ENSTİTÜSÜ TEZ SAVUNULABİLİRLİK VE ORJİNALLİK BEYAN FORMU	Sayfa : 1/1

Öğrencinin

Adı Soyadı	:	Imanou AKALA
Öğrenci Numarası	:	156004063
Enstitü Anabilim Dalı	:	Işletme
Enstitü Bilim Dalı	:	Muhasebe ve Finansman
Programı	:	☑ YÜKSEK LİSANS ☐ DOKTORA
Tezin Başlığı	:	COMPARING FINANCIAL AND SOCIAL PERFORMANCES OF TRADITIONAL AND PARTICIPATION BANKS IN TURKEY (2005- 2016)
Benzerlik Oranı	:	%13

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☐ Sakarya Üniversitesi İşletme Enstitüsü Lisansüstü Tez Çalışması Benzerlik Raporu Uygulama Esaslarını inceledim. Enstitünüz tarafından Uygulalma Esasları çerçevesinde alınan Benzerlik Raporuna göre yukarıda bilgileri verilen tez çalışmasının benzerlik oranının herhangi bir intihal içermediğini; aksinin tespit edileceği muhtemel durumda doğabilecek her türlü hukuki sorumluluğu kabul ettiğimi beyan ederim.

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...../...../20.....
İmza

Uygundur

Danışman
Unvanı / Adı-Soyadı: Dr. Öğr. Üyesi Mustafa Kenan ERKAN

Tarih:09/05/2018

İmza:

☐ KABUL EDİLMİŞTİR ☐ REDDEDİLMİŞTİR **EYK Tarih ve No:**	**Enstitü Birim Sorumlusu Onayı**

PREFACE

First, I would like to sincerely thank my supervisor, Assist. Prof. Mustafa Kenan ERKAN, for the time, for the advice he has given me, and for the expertise he has brought to this thesis. I would also like to thank, Assoc. Prof. Şakir GÖRMÜŞ, Assoc. Prof Ali KABASAKAL and Assist. Prof. Yasin Kerem GÜMÜŞ for their moral support and the time they have given me to discuss and share their knowledge related to the study. I also thank my family and my friends for their encouragement during the realization of this research. And finally, I would like to thank all the people who helped me and supported me during this work, they will recognize themselves through the following pages.

Imanou AKALA

16.05.2017

TABLE OF CONTENT

ABBREVIATIONS and ACRONYMS

AuM	**:** Assets Under Management
B.C	**:** Before Christ
BDDK	**:** Banking Regulation and Supervision Agency
BE	**:** Bank of England
BRSA	**:** Banking Regulation and Supervision Agency
CAGR	**:** Compound Annual Growth Rate
CAMELS	**:** Capital; Asset; Management; Earnings; Liquidity; Sensitivity
CAR	**:** Capital Adequacy Ratio
CB(s)	**:** Conventional Bank(s)
Dev. B	**:** Development Bank
IB(s)	**:** Islamic Bank(s)
IDB	**:** Islamic Development Bank
IF	**:** Islamic Fund
IFI(s)	**:** Islamic Financial Institution(s)
Inv. B	**:** Investment Bank
ISE	**:** Istanbul Stock Exchange
OIC	**:** Organization of the Islamic Conference
PB(s)	**:** Participation Bank(s)
PEE	**:** Public Economic Enterprises
POS	**:** Point of Sale
ROA	**:** Return on Assets
SDIF	**:** Savings Deposit Insurance Fund
SFI/H(s)	**:** Special Financial Institution(s)/House(s)
TBL	**:** Turkish Banking Law
TCMB	**:** Central Bank of the Republic of Turkey
TKBB	**:** Participation Banks Association of Turkey
TL	**:** Turkish Lira
USD	**:** United States Dollar

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Sakarya University Graduate School of Business **Abstract of Master's Thesis**

Title of the Thesis: Comparing Financial and Social Performances of Traditional and Participation Banks in Turkey (2005- 2016)	
Author: Imanou AKALA	**Supervisor:** Assist. Prof. Mustafa Kenan ERKAN
Date:	**Nu. of pages:** ix (pre text) + 72 (main body)
Department: Business	**Subfield:** Accounting and Finance

Following the evolution of the balance sheets, income statements, assets, profitability, deposits, loans, equity, capital adequacy, liquidity, and some other ratios; financial performances of both participation and conventional banks are compared in our study.

In this study, the usage of CAMELS rating system, ratios analysis as well as trend analysis through tables and graphs thanks to the interactive annually bulletin data (2005 – 2016) collected from BDDK and TKBB. At the end of the study, it is seen that, Conventional Banks perform better than Participation Banks, but it is essentially noticed that Participation Banks are the fastest growing industry with more stability and constancy than Conventional Banks.

Keywords: Participation Banks, Conventional Banks, Financial Performances, CAMELS, Financial Ratios

Tezin Başlığı: Türkiye'de Geleneksel ve Katılım Bankalarının Finansal ve Sosyal Performanslar karşılaştırılması (2005-2016)	
Tezin Yazarı: Imanou AKALA	**Danışman:** Yrd. Dr. Mustafa Kenan ERKAN
Kabul Tarihi:	**Sayfa Sayısı:** ix (ön kısım) + 72 (tez)
Anabilimdalı: Işletme	**Bilimdalı:** Muhasebe ve Finansman

Bu çalışmada; Bilanço, gelir tablosu, varlık, kârlılık, mevduat, kredi, özkaynak, sermaye yeterliliği, likidite ve diğer bazı oranlardaki gelişmelerin ardından; hem katılım hem de konvansiyonel bankaların finansal performansları karşılaştırılmıştır.

Bu çalışmada, BDDK ve TKBB'den toplanan yılık bülten verileri (2005-2016) sayesinde CAMELS derecelendirme sistemi, rasyo oran analizi, trend analizi, tablolar ve grafikler aracılığıyla kullanımı incelenmiştir. Çalışmanın sonunda, Konvansiyonel Bankaların Katılım Bankaları'ndan daha iyi performans göstermektetir. Ancak, Katılım Bankalar Konvansiyonel Bankalara göre daha istikrarlı ve en hızlı büyüyen bankacılık sektörü olduğu görülmektedir.

Anahtar Kelimeler: Katılım Bankaları, Konvansiyonel Bankalar, Finansal Performanslar, CAMELS, Finansal Oranları

INTRODUCTION

Born from the awakening of political Islam with the intellectual and political campaign of economic Islamization in Muslim countries in the 20th century, Islamic Banking and finance is experiencing real development with financial globalization in view of its contribution to the world economy. Over the past few decades, Islamic finance has received increasing attention, not only within Muslim economies but all around the world, as illustrated by the involvement of numerous non-Muslim public and private institutions. In 3Q 2015, total global Islamic assets under management (AuM) stood at USD 60.2 billion, the sector is conservatively projected to grow by 5.05% per annum for the next five years to reach USD77 billion in value by 2019; this is substantiated by a number of facts, such as the average growth rate of Islamic funds at 9.55% per annum over the past five years[1].

And the most important factor enabling the industry to reach today's figures was the economic crisis in 2008 while conventional banks suffered a loss of profitability, Islamic banks maintained their growth and profitability and during that period, contrary to Islamic banks, the conventional banks have benefited from the financial assistance of the Government to avoid bankruptcy (Akala, 2017). The fast-growing Islamic financial institution is the banking sector (Total Assets: banking sector 79%, sukuk 4.3%, interest-free investment funds 2.9%, interest-free stocks 2.9%, interest-free insurance "tekaful" 0.7%) which has a growth at a compound annual growth rate CAGR of 17% in the last 5 years to reach USD$ 778 billion (IDB annual reports 2015).

Turkey since 1983 is among the countries which have included Islamic banking in their banking sector under the name of Special Financial Institutions/Houses SFIs (özel Finans Kurumlar.) which became Participation Banks PBs (Katılım Bankalar) by 2005; prior to 2005 SFIs couldn't show any development in term of asset size and product variety due to the lack of necessary legislation. The legislation of 2005 paved the way for a real growth of the sector and start competing with its counterpart (Conventional Banks). In 2013 PBs represent 5.13% of the whole banking sector, their share in total deposits 6.15 % and their share in total credits to 6.03 % (TKBB reports 2013), 4%

[1] ISRA & ZAWAYA 30th September 2015

share of countries in Islamic banking asset (world Islamic banking competitiveness report 2014-15 – PBAT), and actually with 47 banks that represent the whole banking sector 5 are PBs with a total asset of 136.476M TL, and the Participation Banks Association of Turkey working to raise the market share of participation banking sector to 15% by 2025.

Aims and Objectives

The aim of this research is divided into 3 main parts:

1. To identify the evolution (growth) in both conventional and participation banks financial evolution.
2. To identify the differences between the financial & social performances of both conventional and participation banks.
3. To formulate some recommendation to the banking sector operators and to the public.

In our studies meaning by participation and the conventional banks, our focus will be on commercial aspect of both operators.

Problem Statement

Much has been said and written about this topic before. During that period, there was no public participation bank operating in Turkey, but now that the government is involved in both financial sectors the former studies results may actually seem less relevant due to the entry of new operators and the closure of Bank Asia. That is why in our studies we try to come up with updated data for efficient and relevant analysis.

Methodology

Banks are financial institutions that play important role in financing businesses, entrepreneurs, households… that is why they require funds to undertake their activities, and the fund can come from different sources such as deposit and capital.

To be able to undergo their activities efficiently, Banks need a way to evaluate performances and consider some important financial ratio to spot their strength and weakness, which will definitely enable them to manage, control and take the right decisions. Traditionally, the tools used to evaluate banks performances are: measuring performances against the budget, benchmarking, ratio analysis or a mix of all these tools (Avkiran, 1995).

In this research, the usage of the CAMELS rating system as well as ratio analysis through tables and graphs thanks to the interactive monthly bulletin data (2005 – 2016) collected from BDDK and TKBB, are applied to find financial indicators which will allowed us to compare the financial and social performances of both Participation Banks and the conventional counterpart.

CAMELS are initials, the six letters stand for: C capital adequacy; A asset quality; M management competence; E earnings; L liquidity; S represents sensitivity to market risk up to 1997 CAMEL with 5 components, it turned to 6 components with the addition of S which is sensitive to market risks. CAMELS system is created to evaluate banks for each CAMELS component. For this, various financial ratios are used.

Research Model

In this study, the model of CAMELS is shown in Table 1.

Table 1

CAMELS model

CAMELS	Capital (C)	*Total shareholders 'equity/Total risk weighted assets*	*Total complementary capital/Total risk weighted assets*	*Total capital base/ Total complementary capital*	*Liabilities / Equity*	*Deposits/ Equity*
	Asset Quality (A)	*Total Credit /Total assets*	*Banking income/ Total assets*	*Deposits/ Total assets*	*Fix assets/ Equity*	*Fix assets/ Total assets*
	Management Quality (M)	*Profit & Lost/ Number of branches*	*Total assets/ Number of branches*	*Total liabilities/ Number of branches*	*Total deposits/ Number of branches*	*Total credit/ Number of branches*
	Earning Ability (E)	*Fees and commissions / expenses*	*profit and Lost / Equity*	*Deposit cost/ Deposit*	*credit income/ Deposit cost*	*Profit and lost/ Total asset*
	Liquidity (L)	*liquidity adequacy ratio*	*Total credit/ Total asset*	*Security/ Total deposit*	*Current asset/ Demand deposits*	*Current asset/ Total Assets*
	Sensitivity (S)	*Non-performing debts/Loans*	*Provisions of non-performing loan/non-preforming loan*	*Net Interest After Provision / total asset*	*demand Deposits / total Deposits*	*3 Months Flood-Sensitive Assets / 3 Months Flood-Sensitive Liabilities*

Source: Edited by the writer.

Literature Review

Table 2

Previous studies with some CAMELS' important indicators

Year	Title of study	Author	Capital			Earnings	Liquidity	Risk
2011	A Performance Evaluation of the Turkish Banking Sector after the Global Crisis via CAMELS Ratios	Dincer, H., Gencer, G., Orhan, N., & Sahinbas, K.	Equity to (Loan + Market + Principle Amount Subject to Operational Risk) / Equity to Total Assets/ Equity to (Deposit + Nondeposit Sources)	Financial Assets to Assets/ Loans and Receivables to Assets /Permanent Assets to Assets	Interest expenses to total expenses/interest incomes to total incomes/total incomes to total expenses	Net Profit to Total Assets /Net Profit to Equity	liquid assets to Assets/liquid assets to short term liabilities/liquid assets to deposit and non-deposit sources	Total Assets to Sector Assets/ (Loans and Receivables) to (Sector Loans And Receivables)/ Deposits to Sector Deposits
2012	Applicability of CAMELS Rating for Supervisory Regulation of the Indian Banking	Soni, R.	CAR/ Debt to capital/ Debt to assets/ Investment securities to assets	Non-current receivables to total receivables/Noncurrent debt to assets/Investments to assets/percent changes in non-current receivables	Total debt to total deposits/Per capita profit per employee/ROE/ Earnings per employee	Operating profit to average working capital/ margin to total assets/Net profit to assets/Interest income to total income/Noninterest income to total income	Liquid assets to total deposits/Securities to assets	
2013	Analysing the Financial Soundness of the Commercial Banks in Romania: An Approach Based on the Camels Framework	Roman, A., & Şargu, A. C.	CAR/equity to total asset	Impaired loans to gross loans /loan loss provision to net interest revenue/total loans to asset	Operating expenses to asset/interest expenses to Deposits	ROA/ROE/cost to income ratio	liquid assets to (deposit and short term funding)/Net loans to (deposit and short term funding)	The ratio of its assets to the assets
	Camels and performance evaluation of banks in Malaysia: conventional versus Islamic	Rozzani, N., & Rahman, R. A.	Earning to assets	NPL	Staff costs to assets	ROA/ROE	Net loans to (deposits and short-term financing)/Shortterm liquid assets to deposits and financing	Risk sharia

Source: Edited by the writer.

Table 2 (Continious)

2014	A Working Paper on the Impact of Gender of Leader on the Financial Performance of the Bank: A Case of ICICI Bank (india)	Chandani, A., Mehta, M., & Chandrasekaran, K. B.	CAR/ proportion of debt to capital/Debt to assets/bond investments to assets	Noncurrent receivables gross to debt/ Noncurrent debt to debt/Loans to assets/Noncurrent net debt to loans	Debt to deposits/ Returns per employee	Operating profit to average capital turnover rate/ margin or net profit to assets/ interest income to income	Securities to assets/Assets to deposits	
	The evolution of Romania's financial and banking system	Rodica-Oana, I.	Solvability ratio/ Equity ratio	Risk ratio/Interbank loans and investments to assets/Loans to Assets/Net overdue and doubtful loans to Loans/Net overdue and doubtful claims to Assets/Net overdue and doubtful claims to Attracted and borrowed funds/ NPL/Total amounts due and overdue/Debtors and overdue debtors number/ Number of loans	State banks and with state major ownership / Private banks and with private ownership/Banks legal persons/Branche s of foreign banks	Total provision Loss category	Effective liquidity to Required liquidity	Loans granted And commitments assumed by bank in some currency
	Comparative Performance Evaluation of Selected Commercial Banks in Kingdom of Bahrain Using CAMELS Method.Chithra	Venkatesh, D., & Suresh, C	CAR/Equity to assets/ Net capital to facilities/Capital to short-term funding/ Capital to debt	Loan loss reserve to gross loans/ Loan loss provisions to net interest revenue/ loan loss reserve to impaired loans /Net charge offs to average gross loans/ impaired loans to equity	Noncurrent loans to equity/Non operational items to net income/Equity to asset/Operating profit to total risk weighted asset	Rate margin/ cost of assets minus interest income divided by average assets/ other operating income to assets/ ROA/Equity ratio of operating expenses to operating income/ Noninterest expenses to assets	Receivables from other banks divided by debt to other banks/ Assets to loans/ Net loans to shortterm deposits/ Net loans to total deposits/ Cash to short-term deposits/ Cash to deposits	The risk of interest rate/ exchange rate risk/ risk stocks
2015	Bank Performance with CAMELS Ratios towards earnings management practices In State Banks and Private Banks	Salhuteru, F., & Wattimena, F.	CAR/ Profit before tax to assets/ ROA/ Net profit margin/ Loan to Deposit					

Source: Edited by the writer.

CHAPTER 1: UNDERSTANDING BANKING

1.1. Banking Concept

The origin of banks remains a subject that raises so much polemic among the researchers; some sources extend the origin of the banks to the ancient Greece others to the Roman Empire and even some archaeological findings have shown evidence of money lending in ancient China and India. But it is clear that the beginning of banking activities extends to the early ages (antiquity) in which the money we call money in the economy has not yet been used, 3000 years B.C; there are traces of banking activities in Mesopotamia: The clergy lent to those who were entrusted to them, not to idle them. For this reason, we can say that the first banks in history are temples, and the first bankers are clergy: For example, in the city of Ur, the Temple is the bank and priests and priestesses are the bankers by accepting deposits of money and lending money to the sovereign and then to the merchants. But it was in Rome that banking activities really developed with the implementation of legal bases of financial transactions. (Hoggson, 1926)

In the Middle Ages; with the progress of trade, the difficulties and danger involved in the transport of precious metals, people who wanted to protect their property needed hiding mines in reliable places, which marked the starting point and the foundations of modern banks.

Numerous histories position the significant authentic advancement of bank origins to medieval and Renaissance Italy, especially in cities like Genoa, Florence and Venice. The word "bank" derives from the Italian "banco" which designates a wooden bench on which medieval money changers carried out their activity (Kaya, 2012). The first bankers of this period were the money-changers. In the 11th century, the Lombard[2] introduced new financial techniques and marked the history of the bank. The world first bank to be established was in Venice in 1157 with the guaranty from the state (Boland, 2009).

[2] Germanic people who invaded Italy and gave its name to the province of Lombardy in the north of that country

Banks, in the most general sense; Are those organizations that provide the idle funds that are collected from various segments of the economy and transfer them to the economy and produce services that are indispensable in the continuation of economic life “Institutions that match up savers and borrowers help ensure that economies function smoothly” (Gobat, 2012).

According to the Turkish Banking Law No. 5411: Banks are the institutions operating primarily for the purpose of accepting deposit and granting a loan in their own names and for their own accounts as per the provisions of this Law and the branches in Turkey of such institutions established abroad (Banking Law, Article 3).

Banks do different transactions besides deposits and loans.

- Support the implementation of credit and monetary policies in the country,
- Undertake the intermediary role in financial transactions,
- Perform securities purchase and sale transactions,
- Thanks to the rental of safe deposit boxes, they provide protection of valuable assets,
- Provide the use of payment facilities such as credit cards, bank cards,
- Undertake the role of intermediary in domestic and foreign trade transactions.

In fact, banks are one of the most effective elements of financial markets; they cause continuous expansion and changes in the economy. Many factors, such as the globalization, telecommunications development, changes in customer expectations, the changes of the external environment of enterprises, the changes in the activities of the banks…etc. are consequently increasing competition. Therefore, a very dynamic banking concept that changes every day prevails: as stated in the Turkish Banking Law No. 5411.

1.2. Type of Banks

there are various difficulties to classify banks as they are in the concept. Although it is possible, at least at the country level, to classify banks into separated groups by precise lines. The dependence of banking activities relies on the country's economy, capital market, the breadth of the activity area, different purposes of establishing the bank, and the large-scale of banking laws.

Banks can be classified in various fields ranging from their legal qualifications to their economic functions. In this study, the banks will be detailed with their subtitles after a three-way separation according to the scope of the banks, the fields of activity and the ownership structures.

1.2.1. Banks According to Scope

According to the scope, banks are divided into seven groups: Private Banking, Retail Banking, Wholesaling Banking, Universal Banking, International Banking, Holding Banking and offshore Banking.

1.2.1.1. Private Banks

The type of service offered by private banks is that customers are privately managed according to the risks and expectations. Private banking is currently implemented as some branch types of existing banks. Almost many banks open one or more branches in that area and employ qualified and experienced staff in those branches. Those branches, which usually offer personalized service, have few customers but their operations are large. Private Banks aim to provide different, fast and privileged services to customers with large consistent deposits or large loans.

1.2.1.2. Retail Banks

Retail banking is multi-branch banking, which usually does small operations and meets the financial needs of a large segment of society. Retail banks can also be called; Deposit banks, and commercial banks. They mediate between saving owners and investor (Altan, 2001: 57-58)

We can list the characteristics of retail banks as follows:

- There may be idle funds in their cribs because they are in continuous operation and work with many branches.
- Retailer banks have considerably higher expenses for stationery, rent, buildings and equipment.

- Deposit and loan range is wide.
- The number of customers is high.
- Staff costs are high because they have a large number of employees.
- The interest margin is higher than wholesale banks.
- Fees and commission income is higher than interest income.

1.2.1.3. Wholesale Banking

Unlike retail banking, it is a banking type in which the number of transactions is lower, but the account balance is higher (Mathews and Thompson, 2005: 56).

Banks contributed in development by funding major infrastructure, construction and industrial investment projects after the World War II. Later, the development of economic activities, the emergence of large-scale firms, began to require banks specialized in specific issues. Wholesaler banks have begun to develop to meet those specific needs. (Balak and Seymen, 1996: 18)

Wholesaler banks are banks that provide large coherent funding from money and capital markets by leveraging advanced technology with few branches and also helping in financing international trade with new techniques such as factoring and forfaiting and operating mainly in certain financial centres. these markets, which are international in nature, have a competitive structure.

1.2.1.4. Universal Bank

They have emerged in the financial sector with historical developments, organizational structures and strategic orientations. In their home countries, universal banks are targeting almost all customer segments and are trying to provide them with financial services in each area. Outside of their own country markets, most of their activities are concentrated in international banking, wholesale banking and securities activities, often with a more limited competition profile. They are rarely engaged in retail banking activities in foreign markets. Universal banking encompasses a wide range of activities, including business financing, capital markets and foreign currency instruments and services. Many universal banks cover their activities from commissions taken from their services (Yağcılar, 2011:11)

1.2.1.5. International Banks

They are banks that accept deposits in their home countries, give loans, perform other services required by the banking activities; and provide these services through its branches in at least one different country (Kaya, 2015:75)

1.2.1.6. Holding Banks

They are banks directly or indirectly related, possess or control by one or more companies that are not necessarily engaged in banking themselves. The prototype of the holding banking in Turkey is Akbank under the supervision of Sabancı Group. The success of this model led other conglomerates to holding banking by purchasing a bank, establishing a bank or developing small local banks (Akgüç, 1989: 64)

1.2.1.7. Offshore Banks

Refers to the type of bank located outside the country of residence (tax heaven) of its depositors with most of its account holder being non-residents of the jurisdiction. In other words, off-shore banking centres are states, regions or cities where the voluntary reduction or elimination of tax and legal restrictions on legal interventions to attract transnational banks to carry out transactions relating to debts, foreign currency assets or debts. Euro-credit, foreign bond issues, interest and currency swaps, fund management, leasing, factoring, forfaiting, gold and foreign exchange transactions are the main activities of these banks (Akbulak, and Tokmak, 2004: 83).

The phenomenon, began in the 1960s, starting in countries often called tax havens. These countries have created a centre of attraction for fund investments and financial services, thanks to the tax advantages they provide and the lack of supervision.

1.2.2. Banks According to the Fields of Activity

Banks can be aggregated in 4 main groups according to their field of activity

1.2.2.1. Commercial Banks

The term Commercial bank was first introduced in the 19th century in England. The main activity of commercial banks at that time was to collect deposits and give short-term commercial loans. Commercial banks nowadays besides short-term loan offers medium and long-term credits.

This group of banks includes Participation banks which collect funds on the basis of profit and loss sharing (profit and loss partnership)[3] instead of interest in the financial system and use funds on the basis of trade and partnership rather than direct cash use because money itself is not a commodity that is subject to trade but it is a possible means of exchange in trade.

The functions of Commercial Banks can be summarized in:

- Receive deposits
- Money transfer
- Lending for commercial activities or for other purposes, i.e. give credit
- To undertake foreign exchange transactions
- Renting a safe deposit box
- Mediate for bond and stock issuance
- Providing bail letter
- To carry out other banking transactions

1.2.2.2. Investment Banks

Investment banks are banks that are not authorized to collect deposits; they cannot offer all of the banking services products due to the lack of a wide branch network and can carry out limited commercial activities compared to commercial banks. They acquire resources by issuing bonds and borrowing in the form of securities on their behalf to help commercial and industrial enterprises, government institutions, meet capital and investment needs. (Morrison, William and Wilhelm, 2014). Investment banking are established to solve the problem of lack of capital by meeting the medium and long-term fund needs of enterprises. Investment banks are also referred to as securities traders because they sell securities.

[3] The parties that put up labor and capital together will both share the profits and losses that may occur from the activity. In other words, their relationship is not a debtor and a creditor relationship but a partnership relationship.

1.2.2.3. Development Banks

A financial institution that provides financing for national development. The bank is formed by a group of countries, consisting of both donor and borrowing nations. Furthermore, a Dev. B. offers financial advice regarding development projects.[4]

Development banks are established in developing countries with the incentives of the World Bank in 1950 and are financial institutions that aim to increase industrial development by providing financial and technical assistance to new investments to be made by firms with large capital. Development banks and investment banks, although they are similar to each other, have distinct functions. The most important difference is that investment banks are actively operating in developed countries but development banks have emerged in countries where the capital market has not developed much and the capital is scarce (developing countries).

1.2.2.4. Central Banks

Before the 21st century, central banks were known as export banks or national banks (Alpturk, 1969: 3). The Bank of England (BE) is known as the world first emission bank. The BE has played a huge role in many European countries business life.

The basic duty of a central bank is to monitor the monetary policy through interest rates, setting the reserve requirement, credit control and to be a lender of last resort to banks in case financial crisis or banks insolvency (Werner 2002:111-151)

Main Tasks of the Central Bank in the Turkish banking system.

http://www.tcmb.gov.tr/wps/wcm/connect/tcmb%20tr/tcmb%20tr/bottom%20menu/bankahakkinda/sikca%20sorulan%20sorular/sikca%20sorulan%20sorular/kurumsal/soru%202

The central bank takes the necessary precautions with the Government to protect the internal and external value of the national currency (Turkish Lira) and determine the exchange rate equivalence of national currency against gold:

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[4] http://www.investopedia.com/terms/m/multilateral_development_bank.asp

- To determine the value of the national currency (Turkish Lira) against foreign currencies, and exchange of foreign currencies and other derivative transactions,
- To determine the principles and procedures regarding reserve requirements and general liquidity based on the obligations of banks and other financial institutions.
- To make rediscount and advance transactions
- To manage the country's gold and foreign exchange reserves,
- To organize the amount and the circulation of the national currency (Turkish Lira),
- To determine the methods and tools to be used in the electronic environment for payments,
- To establish payment and securities transfer and reconciliation systems,
- To ensure the uninterrupted operation and supervision of the established financial systems,
- To take regulatory relevant measures to stabilize, money and foreign exchange markets in the financial system,
- To monitor financial markets,
- To determine the maturity and types of deposits in banks

1.2.3. Banks According to Their Ownership Structures

According to ownership structures, the distinction is made according to the source that the bank's capital belongs to. In this section, we will examine the banks in four main sections.

1.2.3.1. Private Banks

They are banks that have been established by private individuals and organizations without a public share in their capital (Drigă, Niţă, and Cucu, 2009: 31).

1.2.3.2. Public Banks

They are banks whose capital is directly or indirectly provided by the public. Here, public refers to the treasury or other public legal entities. Public banks are established in order to operate in non-profitable subjects. Public banks may also arise through the nationalization of private banks or foreign banks (Kaya, 2015: 73).

1.2.3.3. Hybrid banks

They are banks that both the private and the public sector have to set up capital in a certain way to establish the bank. Or As a result of the private sale of part of the shares of a bank that is wholly owned by the government or the establishment of partnerships with foreign capital in domestic banks which are entirely public-owned.

1.2.3.4. Foreign Banks

They are Banks operating in a foreign country, more than 50% of the capital of which is controlled by their representatives, affiliated with the institutions in the country where they are established (Mian, 2003).

1.3. The Basic role of banks

Banks role can basically be summarized 9 functions:

1. Fund providing and fund using Function
2. Service Function
3. Revenue and wealth distribution function
4. Foreign trade funding and export promotion function
5. Application of the monetary policy function
6. Money creation function
7. Risk management function in International Financial Markets
8. Function to Ensure Effective Utilization of Resources
9. Financial Intermediation Function

1.3.1. Fund Providing and Fund Using Function

The main function of a bank is to collect deposits from individual or commercial customers and make these funds available for lending. It is also known as the process of creating credits by channelling net savings holders' funds to debts that need money. In this process, firstly the bank is a debtor by taking deposits, and then secondly is a creditor as it gives loans and allocating fund to those in need of it, is the main function of the bank financing intermediary. After collecting these funds, the bank uses them in investing in fixed assets, purchasing securities, and participating in various fields of businesses through loans (Geisst, 1993: 27-28).

Some of the tools banks use to collect funds include:

- Deposit collection
- Issuance of securities (bonds, stocks…)
- Central Bank credits
- Euro-dollar borrowings
- Repo
- POS devices, alternative channels such as salary accounts

1.3.2. Service Function

In a globalizing world, the service function of the banks has become the forefront because; competition is now beyond the boundaries and the banks are searching for new profit gates as well as creating awareness. Either they come up with a brand-new product to their customers or make changes to make the products more functional by offering better services in existing products. Thus, creating awareness in the field of banking, as it is in every business, is now linked to the activities that banks will make with the magic of the service function.

The services offered by banks are many, here are the main ones:

Providing Checks, letter of credit (foreign trade transactions), stock certificate services, credit card services, individual pension services, brokerage services (for stock trading), POS transactions, EFT and money order transactions, foreign exchange transactions, precious metal trading transactions, Services, insurance brokerage services, etc. (hands-on banking, instructor guide well Fargo bank 2012).

1.3.3. Revenue and Wealth Distribution Function[5]

One of the aims of economic policies is to provide a fair distribution of income. There is a linear relationship between wealth and saving, saving and income. As the income

[5] https://www.oecd.org/eco/growth/49421421.pdf

disparity increases, it becomes difficult to save for low-income groups. The lack of saving also reduces the possibility of making wealth. Thus, unfair income distribution leads to an unequal wealth distribution. Groups with low-income try to make benefice and increase wealth levels by directing the savings to the bank through deposits. Since interest incomes are determined by the savings in the banks, high-interest rates have a detrimental effect on income distribution and welfare level.

Banks are now able to offer investment credits to low-income earners in proportion to their income. Therefore, in normal conditions, people who are too low to be able to acquire wealth will be able to get real estate loans given by the banks to purchase houses, land, etc. They can become property owners. Apart from this positive effect on the distribution of income and wealth of the banks, there are also negative effects of course; in the absence of economic stability, the rise in interest rates causes a proportional increase of wealth of low-income people and wealth of rich people, and in the inflationary periods where overnight repo rates rise, the gap between the rich and the poor increases even more (Economic Policy Reforms 2012 Going for Growth).

1.3.4. Foreign Trade Funding and Export Promotion Function[6]

In foreign trade transactions, the bank provides both the financing for the goods that the importer wants to receive and guarantees the importer that goods will be delivered on the conditions they have agreed on. When we look at it from the point of view of the exporter, it ensures him that the goods will be delivered on the terms and conditions of the sales contract. Here the guarantees provided by banks in foreign trade transactions lead firms to easily undertake exports and import activities.

Besides, forfaiting[7] services which are one of the services that relax foreign trade transactions are secured by the banks. This service offered by the banks increases the liquidity and competitiveness of the exporter, which also increases the importer's

[6] U.S. Department of Commerce International Trade Administration: Methods of Payment in International Trade

[7] Forfaiting is a method of trade finance that allows exporters to obtain cash by selling their medium term foreign account receivables at a discount on a "without recourse" basis. A forfeiter is a specialized finance firm or a department in banks that performs non-recourse export financing through the purchase of medium-term trade receivables. (U.S. Department of Commerce International Trade Administration)

bargaining power and allows the exact cost to be calculated. Foreign trade services provided by banks make imports and exports more secure and feasible.

1.3.5. Application of The Monetary Policy Function

Central bank and banks are practitioners of monetary policy instruments. When the Central Bank wants to increase the money supply, it reduces the required reserve ratio, the liquidity ratio, the rediscount rate, and increases the credit volume of the banks by collecting treasury bills and government bonds from the banks, and applies the opposite whenever it wants to narrow the money supply. In addition, the Central Bank intervenes in determining the interest rates, enabling the savings to be directed to the banks or withdrawn. Thus, indirectly keeps under control the money policy (Barro and Gordon, 1983).

1.3.6. Money Creation Function

Banks Services Such Demand deposits, checks, electronic money transfers, credit cards, …etc. allow the creation of real money which means that, it is not necessary to deposit money into the bank in advance to allow the creation of money, banks can grant credit to customers and make check payments within these credit limits, or credit can be created with credit card application which enables the money creation. Another way to create money is that banks should not pay the entire commercial and industrial account at the same time in cash they should perform a money transfer to the creditor's current account. In other terms, banks create money in form of deposit by making new a loan, and when banks give loans, instead of giving cash, they only credit the account of the creditor with the size of the loan. At that moment, new money is created (Mcleay, Radia and Thomas, 2014: 3)

1.3.7. Risk Management Function in International Financial Markets

Banks have to manage the exchange rate fluctuations and the exchange rate risks because for example, the exchange rate risk has greatly reduced the imports of developing countries as the value of their currency is low. This situation is causing stagnation in world trade. In order to ensure that developing countries take the lead in world trade by ensuring effective participation in international trade, appropriate financial techniques should be developed. Those techniques, developed as risk management tools, are called derivative products: Future, forward agreements, options and swaps (Altan, 2001:69).

Today, thanks to those derivatives techniques, if a company want to import goods from abroad but cannot borrow foreign currency in its own country, it may be able to fix the current day's exchange rate, without having to carry any currency exchange risk. In the absence of such a system company will be forced to overpay due to changes in currency exchange rate, and if the currency exchange rate is higher than the rate at the date of the contract, the company will have to suffer losses or even dragged into bankruptcy.

1.3.8. Function to Ensure Effective Utilization of Resources

When banks fulfil the lending function, which is one of the resource utilization instruments, they measure the credibility of the client and the profitability of the investment by performing simple analyses in areas such as where to use the resource, whether or not the investment is profitable, and whether or not the debtor will repay back the loan. Projects that are not profitable usually do not get funding from the bank. This auto-control system is another element that enables efficient use of resources.

1.3.9. Financial Intermediation Function

Financial Intermediation Function which is one of the essential functions of the banks, in terms of fund collection and fund using; It serves as a bridge between funders and needy people. On one hand, those who want to earn money by investing their money in a safe environment through saving, on the other hand, those who need money to finance the production activities; and the flow of funds is done through banks.

CHAPTER 2: BANKING EVOLUTION IN TURKEY

The development of Turkish banking sector is divided into the following periods:

2.1. Evolution of conventional banks

2.1.1. The Ottoman Empire Period (1847-1923)

The first paper money called ‘Kaime’ in the Ottoman Empire was issued in 1840 to clear budget deficits. With the continuous foreign trade deficits, the value of the ‘Kaime’ against foreign currencies has declined considerably. As a result, it has been difficult to find external financing sources for the financing of imports and has pushed the government to seek remedies. In 1845 an agreement was made with two of the Galata bankers. The financing of the Ottoman imports by the bankers started to be financed by a bill of exchange to be issued in foreign financial markets at a fixed exchange rate. This contract was not renewed in 1847 and the bankers set up a bank to perform the same function separately from the government. The first bank in the Ottoman Empire was founded by Galata Bankers in 1847 under the name of Istanbul Bank. However, this bank had not been able to work for a very long time and was liquidated in 1852, ending its activities. Founded in 1856, the Ottoman Bank is regarded as the beginning of banking in the Ottoman Empire. In the Ottoman Empire, especially after the Tanzimat Fermanı of 1839[8], a turnover of the state's expenditures was introduced (Cleveland et al, 2009: 82).

In 1863, Homeland Funds were established to provide agricultural loans to farmers on more favourable terms. Then, in 1888 Ziraat Bank was established as the first state bank. It is aimed to provide agricultural credit under state control. Ziraat Bank's capital was created from receivables of the Hedge Funds.

2.1.2. During the National Banks Period (1923-1933)

When we examined the developments in Turkish banking system in the first years of the Republic era, in 1923 there were 35 banks operating in Turkey, 22 of which were national and 13 were foreign.

[8] Was a period of reformation that began in 1839 and ended with the First Constitutional Era in 1876. It is the first concrete step of Westernization in Turkish history.

The Turkish Economy Congress, organized in 1923 with the participation of the government and the society's prominent members of the agriculture, commerce and industry sectors expressed the necessity of establishing national banking for economic development. According to the views expressed in the Congress, the opportunities of the private sector are not enough to build strong banks yet. The state should contribute to the establishment of the banks (Zarakolu,1973:21-25).

- In 1924 Türkiye İş Bankası, was established as the first private bank.
- In 1925 the first development bank established was Türkiye Sanayi ve Maadin Bankası (the Turkish Industry and Mines Bank) which became Sumerbank in 1933.
- In 1927 the Emlak ve Eytam Bankası, which was established to provide housing loans, was converted to Emlak ve Kredi Bankası (Real Estate and Credit Bank) in 1946.
- In 1930, the Central Bank of the Republic of Turkey was established.

2.1.3. During the Period of Public Banks (1933-1945)

The most prominent characteristic of this period in terms of banking is the establishment of large and important state banks led by state capital, those banks were established under the first Industrial Plan launched in 1934.

- In 1933 Sumerbank and Iller Bank,
- In 1935 Etibank
- In 1937 Denizbank
- And in 1938 Halk Bank

Sumerbank is committed to supporting industrial development; Iller Bank aims to support the provision of infrastructure services such as water, electricity and gas sewerage with medium and long-term loans to developing local governments, prepare city development plans, Denizbank was established to operate regular postal services between Turkish and foreign ports and carry out various port operations.

Halk Bank was founded in 1938 to provide loans to small tradesmen and craftsmen (Zarakolu, 1973:19-20).

2.1.4. During the Private Banks Period (1945-1960)

In the development process of Turkish banking, there has been a period of development of private banking depending on the changes in the economic policies observed during this period (Akbulak, Kavaklı, Tokmak,2004:85-86).

Between 1945 and 1959, the investments in modern enterprises, the rapid growth of the population, the growth of the cities, the industrial sector getting more share in the national income and the expansion of the production caused the increase in the money and credit demand in the economy. Investment in the banking sector has increased and private banking has gained momentum.

- Garanti Bank 1946,
- Akbank 1948,
- Pamukbank 1955,
- And Türkiye Sınai Kalkınma Bankası (the Turkish Industrial Development Bank) 1950

were established during that period.

In that period, the determination of the interest rates and the commission rates to be taken from the banking transactions was fixed by the government authority through the Central Bank, which has the full control on Competition in the banking sector. (Zarakolu, 1973:54).

2.1.5. Planned Period (1960-1980)

The banking sector has undergone substantial state control and influence, and the establishment of new banks in this period has been limited. Branch banking has begun to develop; most private commercial banks have become holding banks. In the planned period, 7 new banks were established, 5 of them for development and 2 for trade (Akgüç,1989:61). The banks established in that period are:

- 1962 Tourism Bank,
- 1963 Industrial Investment and Credit Bank,
- 1964 State Investment Bank,

- 1964 American-Turkish Foreign Trade Bank,
- 1968 Turkey Mining Bank,
- 1976 State Industry and Workers Investment Bank,
- 1977 Turkish bank

2.1.6. The Period of Liberalization and Outward Opening (1980 and 2000)

In the post-1980 period, the Turkish economy opened into international markets and entered into the process of integration with the world economy. First, goods and services were opened and then the capital markets were liberalized. This process has become a critical part of the financial sector and especially in banking at all stages.

With the Capital Market Law issued in 1982, the legal and institutional structure required for the use of capital market instruments was established. The Istanbul Stock Exchange started its activity in 1986. This development includes financing bonds, deposit certificates, bond purchase and sale, repo transactions, share certificates, etc. And the low-cost funding opportunities of banks have been abolished. The increase in options in front of the depositors has had an impact on reducing the share of banks in domestic financial markets.

In 1985, the Banking Law No. 3182 entered into effect and introduced international accounting and supervision system and international banking standards system, introduced uniform accounting plan, made foreign debts, established deposit insurance fund and implemented more realistic profitability on non-performing loans. In addition, interbank market was established. Foreign exchange and foreign exchange deposits were granted. The Central Bank started the open market operations in 1987. The foreign exchange market was established in 1988. In 1989 foreign exchange transactions and capital movements were released. The convertibility of the Turkish Lira (TL) was declared in 1990. In 1990, the Central Bank introduced and implemented the monetary program to increase the foreseeability and reduce the uncertainties in financial markets. All these developments have been influential in the 1994 crisis, one of the biggest economic crises in the history of the Republic of Turkey. In 1999, economic activity narrowed. The capital outflow seen since the second half of 1998 in connection with the

Russian crisis, Adapazarı and Düzce earthquakes, early general elections and government changes have been influential in this contraction.

With all these positive and negative developments, there have been significant increases in the number of banks in this period. Especially before the crisis that broke out in 1994, many banks started to operate. That situation has led to a further increase in competition in the banking sector. For many years, the number of banks increased from 44 to 77 from the 2000s (Akgüç,1989:70-71).

As the banking and economy situation has generally been discussed in the 1980-2000 period, the developments of financial evolution in this period can be summarized as follows:

- In 1982, the Capital Markets Law was enacted.
- In 1983, the Banks Liquidation Fund was converted into Savings Deposit Insurance Fund (SDIF).
- In 1984, State Banks that have been working on Public Economic Enterprises (SEEs) have been defined as "Economic State Entities".
- In 1986, the Istanbul Stock Exchange (ISE) started operating: ISE leasing, factoring, swap, future, forward etc. The diversification of foreign exchange and money markets, such as the start of transactions and the spread of consumer loans has been increased.
- In 1987, the Central Bank of the Republic of Turkey (CBRT) started to open market operations.
- In 1987, the Turkish Teachers' Bank was established and no other public bank was established after that.
- In 1988 the foreign exchange market was established and in 1989 the gold market was established.
- In 1988 Emlak Bank merged with Anadolu Bank and then took over Denizbank in 1992.
- Halk Bank took over TÖBANK in 1992 with Sumerbank and Etibank.
- Denizcilik Bank was established in 1984 and converted to Emlak Bank in 1992.
- In 1989, Sumerbank was transformed into Sumer Holding Inc.

- In 1994, the banking division of Etibank was separated from the industrial company and acquired a separate company status and was attached to the Public Partnership Administration.
- In 1999, all of the five commercial banks, Yurtbank, Esbank, Sümerbank, Egebank and Yaşarbank, which are holding banks, were all transferred to the Savings Deposit Insurance Fund (SDIF)
- In 1999 the Banking Regulation and Supervision Agency (BRSA) were established and started its activities in 2000.

2.1.7. Period of Restructuring in Banking Sector (2000-2010)

The fluctuations that occurred in November 2000 became even more severe in 2001. As a result of the slowdown of structural regulations, the continuation of the increase in the current account deficit due to the inability to limit domestic demand and the increase in the pressure on foreign exchange rates, a crisis started in the financial system of the Turkish economy in February 2001 and spread rapidly to the real sector. In 2000, three private commercial banks (Demirbank, Etibank, Capital Bank) were transformed into management fund. The banking activities of a trade bank (Cyprus Credit Bank) and a development and investment bank (Park Investment Bank) have been suspended. Thus, at the end of 2000, the number of banks transformed into management fund increased to 11.

The number of banks with foreign capital has increased rapidly in the banking sector, which was restructured after the crises of 2000 and 2001. As of the end of 2005, 13 of the 47 banks operating in Turkey were investment banks, while 2 banks were included in the Savings Deposit Insurance Fund. As for the remaining 32 banks, 14 are directly foreign-funded banks.

Due to some financial structural regulations, although the 2008 global financial crisis affects virtually every country, the Turkish banking sector was much more prepared and stronger than the developed and other developing countries' financial sectors. Structural changes such as the restructuring of public banks, consolidation of regulatory and supervisory frameworks, strengthening of the capital base of the sector which has been particularly implemented since the 2001 crisis, have made the sector resistant to crises (Takan and Boyacioglu, 2013: 11).

2.1.8. Actual Period

In this period, many new products have emerged in the banking sector (Individual Pension, Mobile Branch etc.), many products were also changed in their qualities and gained functionality. There has been a remarkable increase in the recognition and usage of many individual products, especially internet banking and credit card.

Table 3

Turkish Banking Sector Status (December 2015)

	Banks	Branches	Personnel	Asset		Total Deposit		Total Credit	
				Million Tl	Share %	Million Tl	Share %	Million Tl	Share %
Conv. Banks	32	11.069	194.838	2.130.600	90,4	1.171.251	94	1.339.149	90,2
Part. Banks	5	1.076	16.518	120.182	5,1	74.176	6	72.037	4,9
Dev.Inv. Banks	13	40	5.366	106.648	4,5	0	0	73.773	5,0
Total	50	12.185	216.722	2.357.430	100	1.245.427	100	1.484.959	100

Source: TKBB (Participation Banks Association of Turkey), General Report Presentation (December 2015)

Conventional and participation banks, as well as development and investment banks, are active in the Turkish banking system. The table above shows the number of banks, branches, personnel, total assets, deposits and loans in the Turkish banking system as of December 2015.

As we examined the development in retail banking products, as of 2010, the number of ATMs, which was 28.000 in 2010, has reached 48.000 in 2015; POS number of 1,824,000 in 2010, has reached 2,158,000 in 2015; the number of bank cards increased from 69,917,000 to 112,384,000 and the number of credit cards increased from 46,956,000 to 58,215,000 (Banks Association of Turkey, February 2016).

2.1.8.1. Commercial Banks in Turkey: 2017 (conventional banks)[9]

- Akbank
- Arap Türk Bankasi (Arab Turkish Ban)
- Bank Ekspres

[9] https://www.globalbankingandfinance.com/list-of-commercial-banks-in-turkey/

- Bank Kapital
- Bayindirbank
- Citibank Turkey
- Demirbank
- Denizbank
- Disbank
- Egebank
- EGS Bank
- Emlakbank
- Esbank
- Etibank Fibank (Fiba Bank) - first internet bank of Turkey
- Finansbank
- Garanti Bank
- Halkbank
- Ihlas Finans
- Iktisat Bankasi
- Interbank
- Is Bankasi
- Kentbank
- Koçbank
- MNG Bank
- Nurol Investment Bank
- Ottoman Bank – Osmanli Bankasi Pamukbank
- Parkbank – Park Yatirim Bankasi
- Sinai Kalkinma Bankasi (TSKB)
- Sinai Yatirim Bankasi
- Takasbank
- Tarisbank
- Türk Ticaret Bankasi
- Turkish Bank
- Vakiflar Bankasi – Vakifbank
- Yapi Kredi Bankasi

2.1.8.2. Participation Banks in Turkey[10]: 2017

- Albaraka
- Kuveyturk
- Turkiye Finans
- Vakif Katilim (Participation)
- Ziraat Katilim (Participation)

2.2. Islamic / Interest-Free Banking

As a definition, interest-free Bank in addition to its capital collects funds through special current accounts that have the right to participate in profit and loss activities and allocates funds to the economy through the methods specified in its legislation. In the financing of all kinds of agricultural, commercial activities and services, the export and import financing and financial institution that can be used to provide equipment for investments and sell it to the firm or to lease it[11]

Interest-free banks, although different in methodology (based on commodity trading and partnership basis), cannot fulfil the cash loans together with all kinds of banking activities like conventional banks. The most fundamental reason for this is the fact that the participation banks are founded on the principle of interest-free.

With the economic liberalization after 1980, the concept of interest-free banking has come to the agenda of Turkish public opinion. Although the focus is on the 1980s, Turkey's first application in interest-free banking and Islamic financing dates back to 1975. Turkey is one of the 22 founding members of the Islamic Development Bank (IDB), which was established in 1975, along with being an active member of the Organization of the Islamic Cooperation (OIC). Turkey has become one of the biggest partners by increasing the share of IDB 's capital in 1984 with the aim of supporting profitable and productive projects for the development of Islamic countries and increasing trade between Islamic countries. In addition, in 1975, the State Workers' Investment Bank was established in order to provide services to individuals and small

[10] http://www.tkbb.org.tr/en

[11] Kuveyt Turk, 2015: Article: 4

and medium-sized enterprises that did not want to invest their savings in an interest-based system, and this bank continued its activities until 1978 based on the interest-free system (Altan,1998:23).

Interest-free banking activities in Turkey began to be considered important in the last quarter of the 20th century. In addition to the economic policies applied at that time, the positive effects of the interest-free banking principles on the economy and the policy of outward opening have been influential in Turkey's tendency towards this area. With the decree entered into force in the Official Journal (19 December 1983, numbered 18256) the legal name of interest-free banking have been determined as Special Finance Houses. The activities of the Special Finance Houses were carried out by the Decree of the Council of Ministers in the meantime and on the other hand by the declarations of the Central Bank and the Under-secretariat of Treasury until the entry into the scope of the Banking Law in 1999. Since December 1999, Special Finance Houses have become subject to the Banking Law No. 4389. As of 2005, upon enactment of the Banking Act No. 5411, the “dual” deposit insurance system was revised and Special Finance Houses have been granted participation bank status. In additional, the new law guarantees the equal treatment of participation banks and conventional banks[12].

2.2.1. History of The Interest-Free Banking

The practice of the interest-free activities is old back in the time as practised in the Kingdom of Hammurabi in Babylon 2123-2081 B.C., but the interest-free savings banks, founded by the Egyptian economist Ahmet El Neccar in 1963 in Mit-Ghamr, with, emerges as the first modern Islamic financial institution. Established to meet the agricultural and commercial needs of the Egyptian peasant and operates in the risk capital system, has long been a subject of debate and later on closed for political reasons the "Nasr Social Bank", established in 1971 with the support of the government in Egypt, emerged as the first interest-free commercial bank. (Mannan, 1980: 323).

Interest-free banking, which rapidly began to spread in the 1980s in a significant part of the Middle East and Asia, has reached Europe and America over the last 10 years and proving its existence in the system. One of the most important institutions that raised

[12] http://www.tmsf.org.tr/default.html

interest in interest-free banking is the Islamic Development Bank, which was established on October 20, 1975, with the participation of 22 Islamic countries including Turkey. The Islamic Development Bank (IDB) was founded with the aim of increasing trade volume among Islamic countries, creating interest-free resources for profitable projects in developing Islamic countries, and supporting education and research work. After the establishment of the Islamic Development Bank, the Dallah Baraka Group and Dubai Islamic Bank in 1975, two private banks in Egypt and Sudan in 1977 named "Faisal Islamic Bank" and Kuwait Finance House were established. The establishment of these financial institutions, which play a leading role in the field of interest-free banking, has brought vitality and confidence to the sector and has been instrumental in establishing more than 50 interest-free banks in different countries within ten years.

Today, Malaysia is one of the leading countries in interest-free banking. Countries like Iran, Saudi Arabia, Qatar, and United Arab Emirates are also trying to be among the countries that want to make a breakthrough into becoming hubs of the industry. In recent years, interest-free banking has been increasing not only in Muslim countries but also in non-Muslim countries such as England, America, Germany and Hong Kong. For example, today, 21 banks in the UK offer interest-free banking services (Participation Banking and Interest-free Finance Workshop Report, 2013: 10).

According to recent data, interest-free banking is being carried out by more than 300 financial institutions in 75 countries. In addition, there was a 17.6% growth in world-wide interest-free banking between 2008 and 2012[13]

2.2.2. Interest-Free Banks Evolution in Turkey

Turkey since 1983 is among the countries which have included Islamic banking in their banking sector under the name of Special Financial Institutions/Houses SFIs (özel Finans Kurumlar.) which became Participation Banks PBs (Katılım Bankalar) by 2005; prior to 2005 SFIs couldn’t show any development in term of asset size and product variety due to the lack of necessary legislation. The legislation of 2005 paved the way for a real growth of the sector and start competing with its counterpart (Conventional Banks).

[13] http://www.financialislam.com/reports/world-islamic-banking-competitiveness-report-2013-14

- Special Financial houses/Institutions (1983- 2005) in Turkey

  In 1985, It is seen that the first Interest-free banks that were operating in Turkey were: Albaraka Türk and Faisal Finans. These two participation banks were followed by Kuveyt Türk in 1989 and Anadolu Finans in 1990. Founded in 1995, İhlas Finans was liquidated in 2001. Asya Finans, established in 1996, has been transferred to the SDIF (Savings Deposit Insurance Fund) in 2016 within the scope of the second clause of Article 107 of the Banking Law No. 5411. Faisal Finans founded by King Faisal was transferred to Ülker Group in 2001 and renamed Family Finance. In 2005, it merged with Anadolu Finans and became Turkiye Finans.

- Participation Banks

  The above mentioned SFH become participation banks by the 2005 legislation. By 2015 we can also notice the integration into the promising participation banks sector by the public operator.

“Ziraat Katılım” Ziraat Participation Bank is the first Public participation bank in the field of participation banking in Turkey. Ziraat Bank, which carries out traditional banking activities, is also going to do interest-free banking; it was established by the permission of the Banking Regulation and Supervision Board dated 10/10/2014 and numbered 29146 published in the Official Journal dated 10/10/2014 and numbered 6046. The Banking Regulation and Supervision Agency's Official journal dated 14/05/2015 and numbered 29355 the operation was granted with the decision of 6302 dated 12/05/2015[14].

Vakıfbank, which continues its conventional banking activities, has also established a participation bank that offers interest-free banking under the name of "Vakıf Katılım ". Vakıf Participation Inc. was declared as a legal entity on 25 June 2015. On 17 February 2016, Vakıf Participation, which has obtained permission from the Banking Regulation and Supervision Agency, has become the youngest member of the sector.[15]

[14] http://www.ziraatkatilim.com.tr/bankamiz/Sayfalar/hakkimizda.aspx

[15] http://vakifkatilim.com.tr/hakkimizda/index.html

Actually, after the closure of Bank Asia in 2016, there are 5 participation banks which operate in Turkey: Albaraka Türk Participation Bank, Kuveyt Turk Participation Bank, Turkiye Finans Participation Bank, Vakif Participation Bank and Ziraat Participation Bank.

The Participation Banks adopted the principle of sharing the profits or losses generated by their activities with the owners of the savings by evaluating the trade and industry within the principles of "interest-free" financing. They also evaluate the funds they collect through methods such as corporate financial support, individual financing support, financial leasing, and profit or loss partnership. The main difference that distinguishes participation banks from other commercial banks is that they do not include any products or instruments related to money sales. Apart from this, when funding, it acts as an intermediary for procurement of goods or services in an absolute way to fund the real economy. They also cannot fund debts or pre-contractual finished commodities and apart from these two kinds of differences, participation banks can basically perform almost all kinds of banking activities.

2.2.3. Activities or Operations of Participation Banks

Participation banks' main task is to act as brokers in the financial sector like conventional banks, in other words, to collect the idle funds in the hands of the savings owners and make them available to the traders, industrialists and consumers who need these funds. Furthermore, participation banks are also engaged in other banking transactions (foreign trade transactions, letter of guarantee, bond and check transactions, credit card, etc.) performed by conventional banks.

We can list the transactions that are frequently used in the field of interest-free banking as follows:

- Opening foreign currency and domestic currency accounts for real and legal persons; accepting deposits.
- To give loans in accordance with Islamic principles,
- Buying and selling gold sands,
- Buying and selling foreign currency only as a spot,
- To issue a letter of credit,

- To give or receive a guarantee, to be a guarantor,
- To provide short-term financing without interest (Karz-ı Hasen)
- Commercial paper, checks, orders, notes and bill of lading, Sea freight document and commission transaction
- To mediate in the purchase and sell of stocks, investment certificates, financial papers
- To create and manage special funds for social purposes
- To provide Mudaraba[16] based financing
- To provide Musharaka[17] based financing,
- To provide reduced participation-based financing,
- To run a private investment account,
- Direct investment by the Bank,
- Machines, equipment, materials and tools to rent,
- Buying and selling real estate,
- To perform agency functions by working like an agency,
- Trading on behalf of someone else on the basis of agreed profits,
- To close funding deficits in accordance with Islamic principles
- To establish and finance different projects on behalf of companies
- Contributing to development by making joint ventures
- To develop existing projects or establish new projects in different sectors
- To mobilize financial resources in regional and international money markets in accordance with Islamic principles
- Issuance of sukuk[18]
- Carry out the execution of the monetary, financial and economic policies.
- Additionally, participation banks perform services like:
- Issuing credit cards,

[16] Mudaraba is a contract whereby one side the investor contributes money and the other side work, being the manager. The investor bears all losses, and the manager earns a profit share.

[17] Musharaka is a partnership in Islamic finance in which all partners contribute for capital in a joint enterprise with profit and loss sharing concept

[18] Sukuk is an Islamic financial title, similar to a conventional obligation, respecting the religious precepts of Sharia.

- Giving travel checks,
- Transfers in and out of the country,
- To make checks and bills collection
- Invoice collection,
- To provide foreign exchange services,
- To provide safe deposit box services,
- To provide insurance brokerage services

As conventional banks, participation banks are one of the most important pillars of the world's economy with many services (such as vehicle &house mortgage loans, goods purchasing loans, checks, Financial leasing services, letter of guarantee, guarantor, insurance services etc.). However, a participation bank cannot offer some services offered by conventional banks. For example; a participation bank cannot offer a cash loan service that is a direct money funding transaction. Moreover, participation banks do not do any work that is Haram[19] or not legitimated in Islamic law:

- Cigarette, liquor trade,
- Gambling and luck games,
- Prohibited food production and trade,
- Establishments operating against Islam,

Moreover, most Islamic financial institutions and conventional banks offering Islamic products have a compliance committee, commonly known as the Sharia Board, which independently establishes the conditions for the validity of transactions according to Sharia rules and principles. This committee is a collegiate body composed in general of 4 to 7 Ulemas (scholars of the Sharia), all of whom have advanced expertise in banking, financial matters and Sharia.

2.2.4. Differences Between Conventional and Participation Banks

Although they appear to function identically, there are basically functional and application differences between conventional banks and participation banks.

[19] It means linguistically prohibited, and it is the opposite of "halal" which means permitted in the Islamic faith.

Table 4

Differences Between Conventional Banks and Participation Banks

	Participation (Islamic) Banks	conventional Banks
Reference	Qur'an (verses and hadiths)	Individual profit motivation based on economics, without a religious or ethical reference
Funding Ethics	Asset-based financing and efficient use of assets to reduce the debt burden	Excessive use of credit and waste of financial resources, which leads to bankruptcies and increases the debt burden
Risk and Participation in Equity Financing	Autonomous financing is available for a project that involves sharing of R / C; Risk and profit sharing go together	Unlike investment banks, commercial banks are generally not dependent on equity financing. Excessive risks, except small risks, are borne by borrowers
Capital Return	Idle money generates profits based on productivity; Money is not just capital, it is only potential capital.	even idle money generates profits in conventional banks
Profit and loss sharing	Most transactions are based on variable returns, independent of the performance of borrowers. The sharing of greater risks obliges them to be more professionally managed. investors get higher return opportunities in participation banks systems than conventional ones	There is no relationship between bank performance and risk-free depositors / investors. Conventional Banks act as intermediaries between borrowers and those who want to spread almost risk free.
Compound Interest Calculation	Islamic banks do not reserve more than the initial value (default)	In addition to the initial value (default) extra money is paid
Debt from the Money Market	hard for participation banks to borrow from money market	For conventional banks, this is the main liquidity source.
initial money Guarantee	no guarantee	there is a guarantee
Relations with Customers	The degree of closeness of participation banks to their customers is highly based on partnership.	The traditional status of the relation between conventional banks and their customers is creditor and debtor status

Source: Katılım Bankacılığına Giriş / Sağlam Bankacılık Modeli İle (2012)

2.2.5. Causes of Participation Banks Emergence

According to Islamic religion; an economic system that encourages paying or receiving interest is not welcomed. The interest payment between the debtor and the creditor has been banned even more severely in the Qur'an[20] and the Sunna[21]. There are eight verses that deal with "Ar-Ribâ" which are quoted in the Surahs: Surah 2: "Al Baquarrah" the Cow: Verses: 275 276, 278, 279 and 280.

" الَّذِينَ يَأْكُلُونَ الرِّبَا لاَ يَقُومُونَ إِلاَّ كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُواْ إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَن جَاءهُ مَوْعِظَةٌ مِّن رَّبِّهِ فَانتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللّهِ وَمَنْ عَادَ فَأُوْلَـئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ" S:2,V:275 meaning (Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.)

This prohibition is also not specific to Islam, formerly in the Jewish religion the Tarbit (Interest and Usury) are forbidden; similarly, for Christianity, on the same basis, the Gospel condemned the practice of interest.

This is perhaps one of the most important reasons for the emergence of the concept of interest-free banking. On the one hand, the necessity of prohibiting of interest existing in the banking system, on the other hand, the concern of assessing the excesses of funds in Muslim countries and invest them according to the Islamic religion recommendations.

The major factor in the intensification of fund excess in the Islamic countries is the oil crisis of 1973. As a result of the crisis, oil prices have increased and a huge accumulation of capital has emerged, especially in the Muslim Arab oil exporting countries. The idea and necessity of assessing the resulting capital in line with Islamic principles have led to the acceleration of the development of the interest-free banking theory and the establishment of interest-free banks in countries such as Egypt and Sudan within a few years (Karaayhan,2008:34).

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[20] The Qur'an (in Arabic: القرآن, al-Qur'an? meaning "recitation") is the sacred text of Islam for Muslims who believe that it is the word of God.

[21] The term sunna (Arabic: سنة) means "journey" or "practice". In the Qur'an, the term sunna is used to designate the "immutable law" of God under the expression sunna Allah (Arabic: "سنة الله") which means "rules of God"

CHAPTER 3: COMPARISON OF FINANCIAL PERFORMANCES WITH CAMELS RATING SYSTEM

CAMELS is a rating system established by supervisory authorities in the USA. It is used in the detection of the general situation during the risk-based supervision of commercial banks and in remote surveillance activities.

The first, component of the CAMELS system which is the capital adequacy is assessed in terms of the quantity and the nature of the bank’s capital. The second, which is asset quality is assessed in terms of asset quality to generate income or not, the ability to convert an asset into cash. The third, which is management competence or ability is assessed in terms of, the ability of the board to measure, monitor, control the risks associated with the activities of the bank and to ensure its safe, healthy and effective operation. The fourth, which is earnings is assessed in term of historical and quality and sustainability of the gains. The fifth which is liquidity is assessed in term of liquidity position of the banks through the use of ratios. And sixth, which is sensitivity to market risk is assessed in term of the market risk arising from the changes in the bank's interest rates, currencies, and commodities.

3.1. Creation of CAMELS Evaluation System

When CAMELS rating system was established, banks are first assessed for each CAMELS component. Various financial ratios are used for this and the evaluation is done on a scale between 1 and 5. Accordingly, "1" represents the best-performing banks in the component, and the increasing note indicates the worsening situation. After each component is calculated in this way, a weighted average of these components gives the overall rating of that bank. When this evaluation is done, bank's structure, size, general and/or bank specific issues are taken into account by the auditor. The CAMELS grade of the banks is between 1 and 5. According to that:

"1" is a strong bank (the bank should have a note of 1 or 2 for each component that makes CAMELS)

"2" is generally strong banks (each component should not be worse than value 3)

"3" There are problems with the performance of the bank, that means the bank it is not performing satisfactorily and that it is insufficiently resistant to possible shocks which managers should focus on.

"4" banks, which have serious problems in general and financial/managerial problems and therefore poor performance,

"5" Banks with very serious financial/managerial problems and high risk of sinking,

The same financial ratios can be used in more than one component while creating CAMELS rating. For example, some of the ratios used when evaluating asset structures of banks can affect profitability, liquidity and asset quality at the same time.

3.1.1. C: (Capital)- Capital Adequacy

It evaluates bank's capital adequacy through this component. For this purpose, ratıos are used to evaluate the bank's capital in terms of quantity and quality. And, the Factors that the authorities in the United States consider in the measurement of capital adequacy are given below:

- The level and quality of the capital, the general financial situation of the bank is evaluated taking into account the bank size,
- Availability of resources in cases where it is necessary to create additional capital,
- The status of the problematic assets and evaluate whether they are adequately separated or not,
- Disaggregate the entity's asset structure to include various risks. For example, risk concentration risks arising from non-trade activities, the status of fixed assets
- The assessment of the risks created by off-balance sheet transactions,
- The profitability situation,
- The bank's plans for growth,
- Size of undistributed profits,
- Access to capital markets and other capital resources.

3.1.2. A (Asset) Asset quality

Evaluates bank's assets quality and the following elements are required when assessing the asset quality of the bank:

- Effectiveness/suitability of credit extension period, conditions, managerial evaluation, failure to make necessary risk assessment when borrowing credits and obtaining appropriate collateral
- The determination and monitoring of the troubled assets (delayed, re-structured, legal follow-up etc.) and the success demonstrated in this process,
- The status of the loan provisions, separation of sufficient probable loss reserves
- The level of credit risk and the guarantees are given in off-balance sheet activities, the evaluation of derivative transactions, credit limits,
- Evaluation of credit and investment portfolio
- Assessment of asset concentration
- Success in the collection of troubled assets
- The situation of internal audit and management information systems.

3.1.3. M (Management) Management quality

Evaluates bank's management capacity and performance. Following elements are required when assessing the management capacity of the bank:

- The conditions under which the bank decisions are supported by the board,
- The success of the management board and senior management to control the risks associated with the activities, strategies and developments in the sector and adaptation to new products and services and leading capacities,
- The competence of the internal control systems in the fields of activity, the level of production of appropriate policies
- The structure, size and adequacy of the bank's management information and risk systems,
- Proper operation of the legislation
- The willingness of the Bank's management to take into account the evaluations and warnings of auditors and contribute to the creation of a well-functioning, regulated banking system,

- Depth and success of management
- Distribution of authority in top management and management board, governance quality
- Overall success and risk profile of the bank

3.1.4. E (Earnings)

Evaluates bank’s profitability, both as historical and as quality evaluates the gains. following elements are required when assessing the profitability of the bank:

- Assessing the status of earnings by trend and stability
- Whether enough capital has been created for the bank by means of undistributed profits,
- Earnings sources and quality,
- Evaluation of budgeting systems and management information systems,
- The status of the response system and the revaluation,
- Sensitivity to market risk of losses

3.1.5. L (Liquidity) Liquidity status

Evaluates bank’s liquidity status. following elements are required when assessing the liquidity status of the bank:

- Assessment of liquidity sources for today and for the future and elimination of liquidity need without negatively affecting bank's situation and operations
- Access to money markets and similar fund markets,
- Differentiation of the fund resources of the bank (balance sheet and off-balance sheet)
- Level of dependence on short-term fluctuating funds
- The development and stability of deposits
- The assets that can be converted into securities and the possibilities to sell them as needed,
- Evaluation of the bank's liquidity situation to include the effectiveness of resource management, liquidity strategies and management information systems

3.1.6. S (Sensitivity) Sensitivity to market risk)

Evaluates bank's sensitivity to market risk arising from changes in interest rates, currencies, commodity prices and stock prices. following elements are required when Sensitivity to market risk of the bank:

- Bank's earnings and capital value are sensitive to adverse changes in market conditions
- Bank management's ability to identify and control the market risk to which the bank is exposed
- Structure of interest rate risk exposed by banks in non-trading transactions
- Market risk situation arising from the bank's trade and foreign exchange transactions

3.2. Use of CAMELS System

On-site audit in the US is risk-based and the banks are assessed through the CAMELS rating system. CAMELS note is calculated by following the method outlined above; Qualitative information (such as bank observations, auditor experience) used by auditors as well as quantitative information about the bank during the audit is effective on this note. However, the use of the CAMELS system is not limited to on-site inspection. This system is also used for remote surveillance in the USA. This system is also used for remote surveillance in the USA.

The CAMELS system has been implemented by Hong Kong with the support of the FED since April 1999 in order to formulate the audit policy in a risk-based and prospective manner and to identify possible problems of the bank as early as possible. Similarly, in the RATE (Risk Assessment, Tools and Evaluation) system, which is used as an audit policy in the UK, evaluation is done via CAMELBCOM[22]. South Korea, Chile and Argentina also use the CAMELS rating system to supervise the banking system.

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[22] C capital, A assets, M market risk, E earnings, L liabilities, B business and assesses the quality of bank reputation, legal and operational risks and general internal control mechanisms. The other three factors are C controls, O organization, M management.

Table 5

Criteria to be Considered during CAMELS Analysis

	CRITERIA
C (Capital) Capital Adequacy	Evaluation of the financial status of banks by considering the sizes of banks
	The availability of resources when additional capital is needed
	The status of risky assets and whether they are allocated adequately to these risks, revaluation conditions
	Separation of the asset structure of the Binary into various risks
	Assessing the risks created by off-balance sheet transactions
	Profitability status
	Relevant plans of the bank to grow
	Size of undistributed profits
	Access to capital markets and other capital resources
A (Asset) Asset quality	The effectiveness of the credit extension process, the conditions, the managerial evaluation, whether or not the necessary risk assessment has been made during the loan application,
	Identification of problematic assets, monitoring and success
	Status of loan provisions, separation of sufficient probable loss provisions
	Evaluation of the level of credit risk and the guarantees given in off-balance sheet activities, derivative transactions, credit limits
	Evaluation of credit and investment portfolio
	Assessment of asset intensification
	Success in collection of troubled assets
	Status of internal audit and management information systems
M (Management) Management quality	Terms of support of bank decisions by the board of directors
	The success of the management board and senior management to control the risks associated with the activities, strategies and developments in the sector, compliance with new products and services and leading capacity
	The adequacy of internal control systems in the activity areas and the level of formation of appropriate policies
	The adequacy of banks in terms of structure, size and scope of management, information and risk systems
	In accordance with the legislation
	Bank management's desire to consider auditors' evaluations and expectations and to contribute to the creation of a regulated banking system
	Management's depth and success
	Distribution of top management and management in the board of directors and management quality
	Bank's overall success and risk profile
E (Earnings)	Assessing the status of earnings by trend and stability
	Whether or not sufficient capital is created for the bank through undistributed profits
	Sources and quality of earnings
	Evaluation of budgeting systems and management information systems
	The status of the contingency system and revaluation
	Assessment of asset intensification
	Earnings sensitivity to market risk
(Liquidity) Liquidity status	Evaluation of liquidity sources for today and after and elimination of liquidity need
	Access to money and similar fund markets
	Differentiation of the fund resources of the bank
	Level of dependence on short-term fluctuating funds
	The development and stability of deposits
	The ability to convert assets into securities and the ability to sell
	Evaluation of the bank's liquidity, including liquidity strategies and management information systems
S (Sensitivity to market risk)	The sensitivity of banks' earnings and capital values to negative changes in the market
	The success of the bank management in identifying and controlling the market risk to which the bank is exposed to
	Structure of the interest rate risk the bank is exposed to in non-trading transactions
	Market risk situation arising from bank's trading and foreign exchange transactions

Source: Sakarya, 2010: 15-16 and Kaya, 2001: 2-4.

CHAPTER 4: RESULT AND DISCUSSION

4.1. Eying the evolution of some essential CAMELS rating components of CBs and PBs[23]

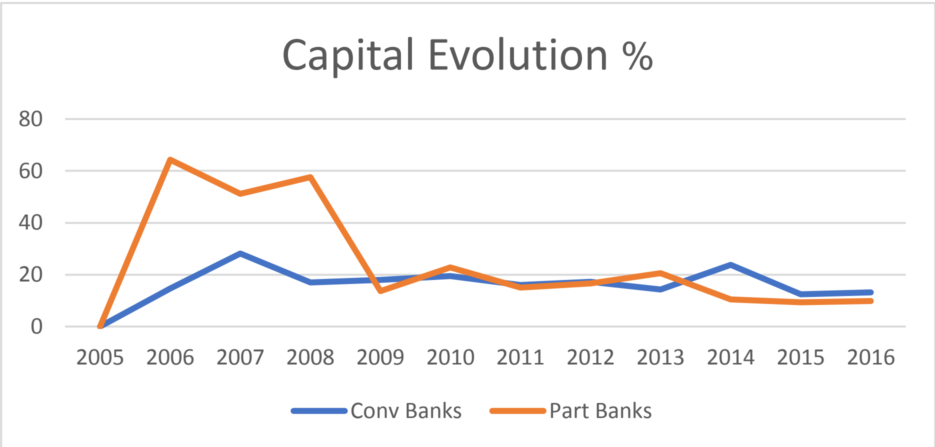
4.1.1. Capital Evolution

Table 6

Growth of Capital size in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	43.088	15,6%	950	53,5%
2006	49.426	14,7%	1.561	64,3%
2007	63.338	28,1%	2.361	51,2%
2008	74.088	16,9%	3.721	57,7%
2009	87.401	17,9%	4.231	13,7%
2010	104.439	19,5%	5.197	22,8%
2011	121.145	15,9%	5.979	15,1%
2012	142.055	17,3%	6.975	16,7%
2013	162.319	14,3%	8.409	20,6%
2014	200.901	23,8%	9.286	10,5%
2015	225.960	12,5%	10.156	9,3%
2016	255.849	13.2%	11.150	9,8%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 1: Capital Evolution (2005 – 2016)

Source: Edited by the writer.

[23] IMANOU AKALA, (2017) "Comparing Financial Performances of Conventional and Participation Banks: Case of Turkey (2005 – 2015)"Jul 2017, I. Uluslararası Ekonomi, Finans ve Ekonometri Öğrenci Sempozyumu (EFEOS)

The growth of Capital size of conventional and participation banks over 10 years is shown in Table 6 and the graph 1. Before the year 2009, the growth of the capital of CBs was higher than the growth in PBs. We could also notice up and downs between the growth of the capital size of both banks since 2009, but from 2013 to 2016 the growth of capital size in PBs appears to be higher than the capital growth in CBs.

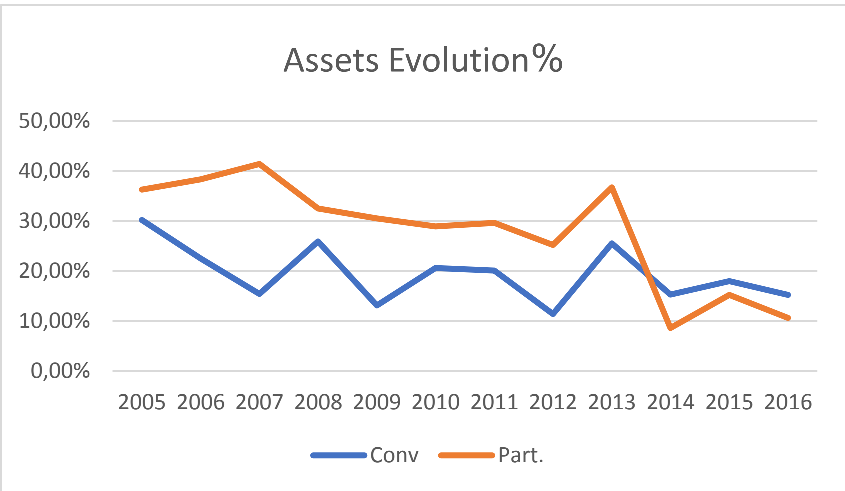
4.1.2. Asset Evolution

Table 7

Assets Evolution in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	384.097	30,2%	9.945	36,3%
2006	470.635	22,5%	13.752	38,3%
2007	543.272	15,4%	19.445	41,4%
2008	683.823	25,9%	25.77	32,5%
2009	773.357	13,1%	33.628	30,5%
2010	932.371	20,6%	43.339	28,9%
2011	1.119.911	20,1%	56.148	29,6%
2012	1.247.653	11,4%	70.279	25,2%
2013	1.566.190	25,5%	96.075	36,7%
2014	1.805.438	15,3%	104.319	8,6%
2015	2.130.601	18,0%	120.183	15,2%
2016	2.455.365	15,2%	132.873	10,6%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 2: Assets Evolution (2005 – 2016)

Source: Edited by the writer.

The growth of asset size of conventional and participation banks over 10 years is shown in Table 7 and the graph 2. PBs achieved faster growth than the CBs in the past years but couldn't catch up after 2014. While the CBs reached TL 2.455.365 Million asset sizes in 2016, the PBs reached 132.873 Million TL.

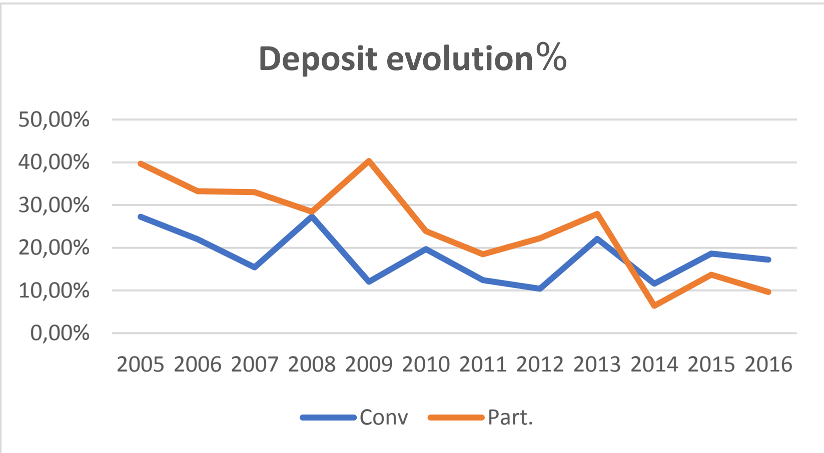
4.1.3. Deposit evolution

Table 8

Deposit evolution in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	243.121	27,2%	8.369	39,7%
2006	296.495	22,0%	11.152	33,2%
2007	342.031	15,4%	14.834	33,0%
2008	435.554	27,3%	19.045	28,4%
2009	487.909	12,0%	26.711	40,3%
2010	583.947	19,7%	33.089	23,9%
2011	656.276	12,4%	39.22	18,5%
2012	724.296	10,4%	47.921	22,2%
2013	884.457	22,1%	61.313	27,9%
2014	987.463	11,6%	65.23	6,4%
2015	1.171.251	18,6%	74.176	13,7%
2016	1.372.359	17,2%	81.273	9,6%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 3: Deposit Evolution (2005 – 2016)

Source: Edited by the writer.

The growth of deposits in Conventional and participation banks from 2005 to 2016 is shown in Table 8 and Graph 3. It is seen that the PBs achieved a faster growth than the CBs in the past years but couldn't catch up with the growth after 2014. While the conventional banks reached 1.372.359 Million TL in deposit in 2016, the participation banks reached 81.273 Million TL.

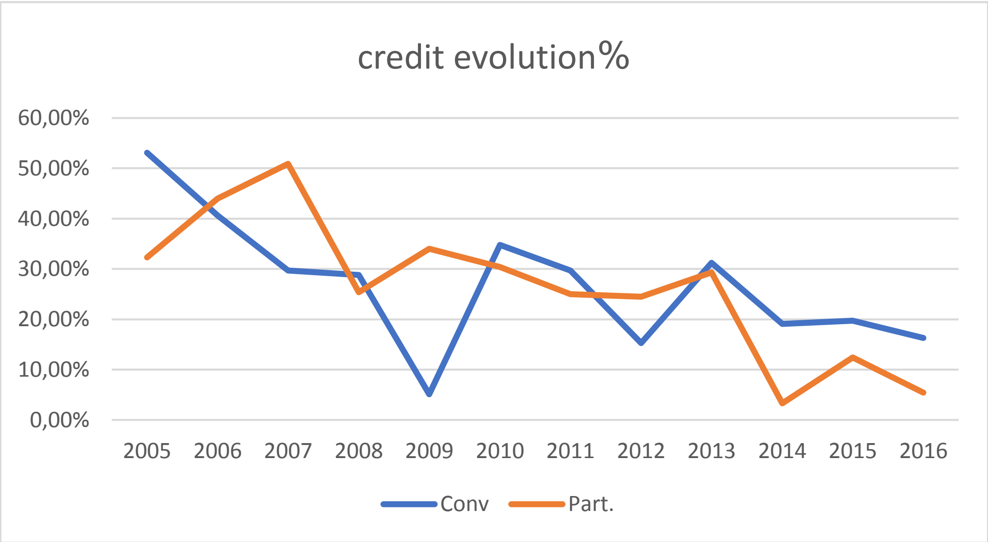
4.1.4. Credit Evolution

Table 9

Credit Evolution in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	143.975	53,1%	6.474	32,3%
2006	202.467	40,6%	9.323	44,0%
2007	262.572	29,7%	14.072	50,9%
2008	338.091	28,8%	17.641	25,4%
2009	355.285	5,1%	23.641	34,0%
2010	479.018	34,8%	30.823	30,4%
2011	621.379	29,7%	38.538	25,0%
2012	716.307	15,3%	47.961	24,5%
2013	939.772	31,2%	62.029	29,3%
2014	1.118.887	19,1%	64.065	3,3%
2015	1.339.149	19,7%	72.038	12,4%
2016	1.557.270	16,3%	75.896	5,4%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 4: Credit Evolution (2005 – 2016)

Source: Edited by the writer.

The growth of credit size of conventional and participation banks for 10 years is shown in Table 9 and Graph 4, and it is seen that CBs and PBs in the past years have some up and down in the size of credits allowed. Since 2013 CBs credit size growth remained higher than PBs credit size growth. In 2016, while the CBs reached the size of 1.557.270Million TL, the PBs reached 75.896Million TL.

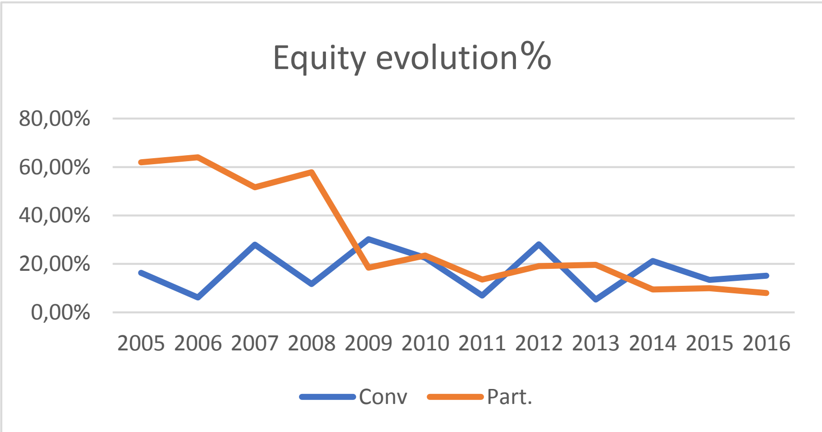
4.1.5. Equity evolution

Table 10

Equity Evolution in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	47.482	16,3%	951	62,0%
2006	50.409	6,2%	1.56	64,0%
2007	64.533	28,0%	2.364	51,6%
2008	72.06	11,7%	3.729	57,8%
2009	93.833	30,2%	4.42	18,5%
2010	114.979	22,5%	5.457	23,5%
2011	123.007	7,0%	6.194	13,5%
2012	157.553	28,1%	7.377	19,1%
2013	165.954	5,3%	8.833	19,7%
2014	201.116	21,2%	9.673	9,5%
2015	228.144	13,4%	10.645	10,0%
2016	262.503	15,1%	11.496	8,0%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 5: Equity Evolution (2005 – 2016)

Source: Edited by the writer.

The evolution of equities size of Conventional and participation banks from 2005 to 2016 is shown in Table 10 and Graph 5. PBs equities have been higher than the CBs equities until 2008, they couldn't catch up with the increasing trend after 2008. While the CBs reached 262.503 Million TL in equity size in 2017, PBs have reached 11.496

Million TL and after 2013 the CBs equity size growth remained higher than the PBs equity size growth.

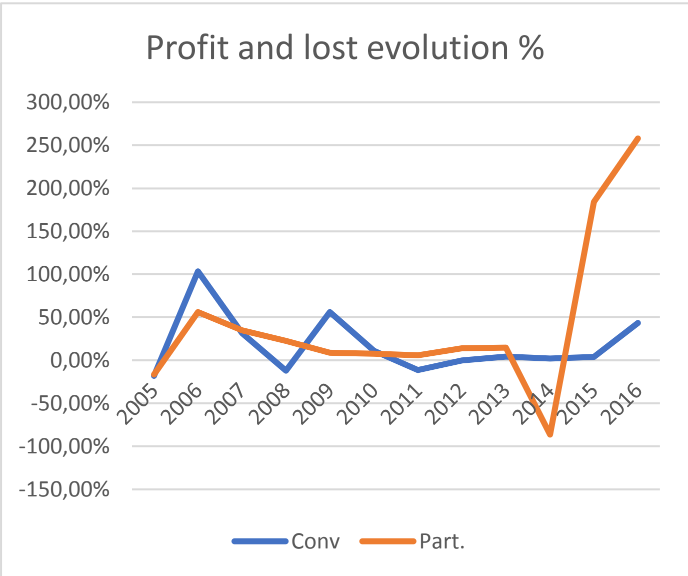
4.1.6. Profit and Lost Evolution

Table 11

Profit and Lost Evolution in CBs and PBs

Year	CONV. BANKS		PART.BANKS	
	AMOUNT	GROWTH	AMOUNT	GROWTH
2005	5.032	-18,0%	250	-16,6%
2006	10.243	103,5%	391	56,3%
2007	13.468	31,5%	527	34,9%
2008	11.851	-12,0%	647	22,8%
2009	18.49	56,0%	705	8,9%
2010	20.518	11,0%	759	7,7%
2011	18.177	-11,4%	803	5,8%
2012	21.539	18,5%	916	14,1%
2013	22.473	4,3%	1.052	14,8%
2014	22.927	2,0%	144	-86,3%
2015	23.889	4,2%	409	184,1%
2016	34.224	43,3%	1.106	258%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 6: Profit and lost Evolution (2005 – 2016)

Source: Edited by the writer.

The growth in the profit and loss of conventional and participation banks from 2005 - 2016 is shown in Table 11 and Graph 6. It is seen that CBs had higher growth than PBs in the past years. in 2014 there was a very significant loss of PBs. While the CBs reached a profit size of 34.224 Million TL in 2016, the participation banks have reached 1.106 Million TL.

4.2. Analysis Results with The CAMELS Assessment System

4.2.1. (C) Capital Adequacy

Table 12

Capital Adequacy Tools in CBs (2005-2016)

Conventional Banks						
Year	**Shareh. Equity**	**Risk Weighted Assets**	**Compl. Capital**	**Total Liabilities**	**Total Deposit**	**Total Capital**
2005	47,482.23	192,225.16	6,860.91	384,096.92	243,120.92	43,087.75
2006	50,409.21	257,226.80	5,115.49	470,634.57	296,495.02	49,425.78
2007	64,533.48	380,468.53	6,935.93	543,272.47	342,030.88	63,338.35
2008	72,059.81	472,433.78	8,381.25	683,823.26	435,553.91	74,088.32
2009	93,832.59	509,412.13	12,045.44	773,357.13	487,908.97	87,401.44
2010	114,978.96	665,034.84	14,048.25	932,370.68	583,947.44	104,438.90
2011	123,007.33	875,163.08	15,458.93	1,119,910.66	656,275.77	121,145.29
2012	157,553.01	994,246.92	30,229.17	1,247,653.13	724,295.66	142,054.76
2013	165,954.39	1,329,777.71	32,502.51	1,566,190.40	884,456.64	162,318.56
2014	201,116.45	1,520,789.43	38,822.95	1,805,437.99	987,463.08	200,900.93
2015	228,143.93	1,794,077.89	45,012.06	2,130,600.52	1,171,251.45	225,960.44
2016	262,503.20	2,024,351.75	50,627.13	2,455,365.62	1,372,359.32	255,848.55

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 13

Capital Adequacy Tools PBs (2005- 2016)

Participation Banks						
Year	**Shareh. Equity**	**Risk Weighted Assets**	**Compl. Capital**	**Total Liabilities**	**Total Deposit**	**Total Capital**
2005	951.09	7,508.51	34.40	9,945.43	8,369.16	950.03
2006	1,559.71	9,388.54	47.82	13,751.58	11,151.82	1,561.05
2007	2,363.81	14,488.55	73.17	19,445.32	14,834.17	2,360.71
2008	3,728.93	24,991.53	117.34	25,770.13	19,045.29	3,721.22
2009	4,419.56	28,566.46	153.77	33,628.04	26,711.41	4,231.12
2010	5,457.08	35,823.11	205.27	43,338.70	33,089.46	5,196.91
2011	6,193.63	46,424.12	558.47	56,148.34	39,220.35	5,979.24
2012	7,376.81	54,778.33	688.84	70,279.38	47,921.10	6,975.40
2013	8,832.65	72,364.32	1,735.10	96,074.73	61,313.32	8,409.40
2014	9,673.04	76,504.37	1,890.24	104,319.07	65,229.93	9,286.36
2015	10,644.81	89,419.84	3,287.07	120,182.94	74,176.42	10,156.18
2016	11,495.71	92,367.44	3,936.05	132,873.84	81,272.69	11,150.41

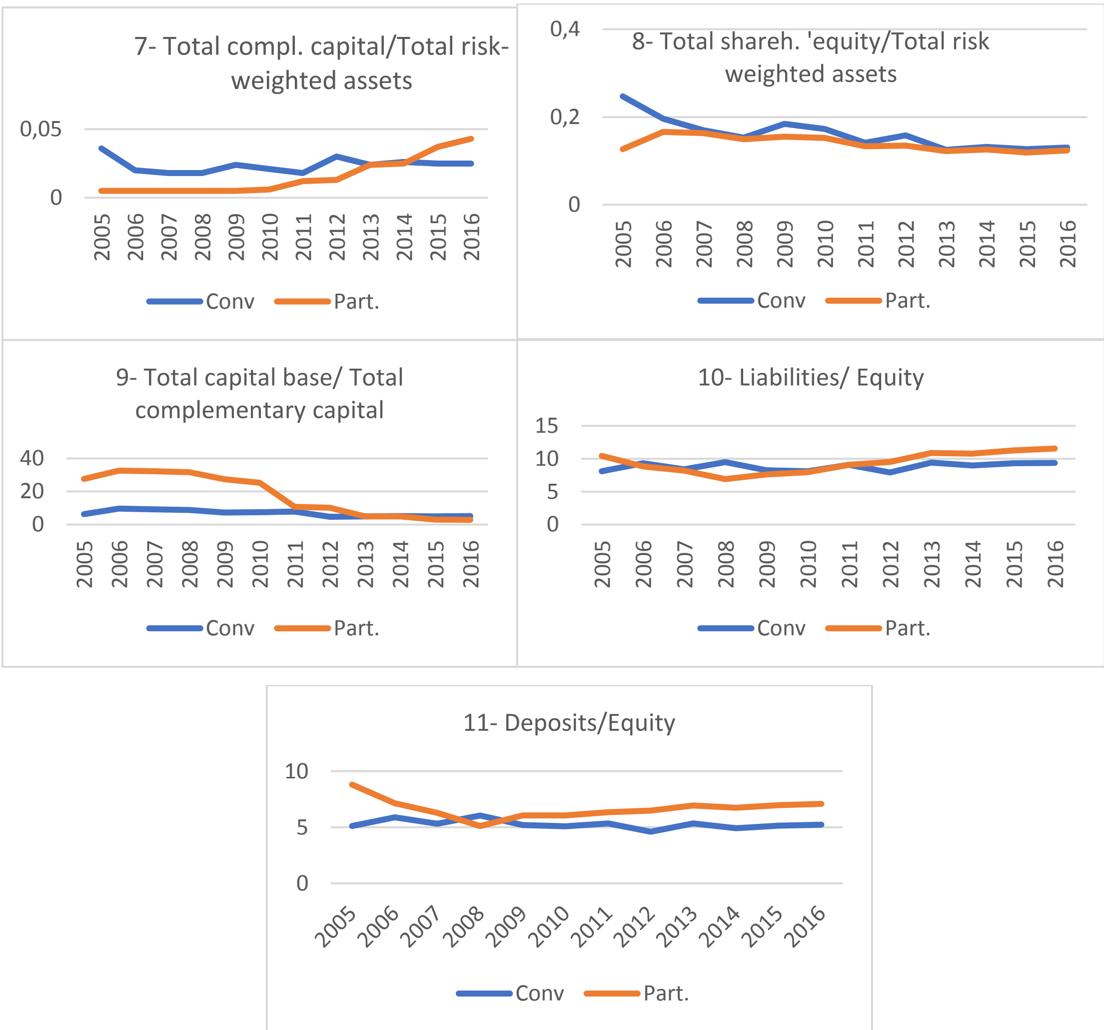
Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 14

Capital Adequacy Ratios in CBs and PBs (2005- 2016)

	Total shareh. 'equity/Total risk weighted assets		Total compl. capital/Total risk-weighted assets		Total capital base/ Total complementary capital		Liabilities/ Equity		Deposits/Equity	
Capital Adequacy	**Conv**	**Part.**	**Conv**	**Part.**	**Conv**	**Part.**	**Conv**	**Part.**	**Conv**	**Part.**
2005	0.247	0.127	0.036	0.005	6.280	27.621	8.089	10.457	5.120	8.800
2006	0.196	0.166	0.020	0.005	9.662	32.642	9.336	8.817	5.882	7.150
2007	0.170	0.163	0.018	0.005	9.132	32.262	8.418	8.226	5.300	6.276
2008	0.153	0.149	0.018	0.005	8.840	31.713	9.490	6.911	6.044	5.107
2009	0.184	0.155	0.024	0.005	7.256	27.515	8.242	7.609	5.200	6.044
2010	0.173	0.152	0.021	0.006	7.434	25.317	8.109	7.942	5.079	6.064
2011	0.141	0.133	0.018	0.012	7.837	10.706	9.104	9.065	5.335	6.332
2012	0.158	0.135	0.030	0.013	4.699	10.126	7.919	9.527	4.597	6.496
2013	0.125	0.122	0.024	0.024	4.994	4.847	9.437	10.877	5.330	6.942
2014	0.132	0.126	0.026	0.025	5.175	4.913	8.977	10.785	4.910	6.743
2015	0.127	0.119	0.025	0.037	5.020	3.090	9.339	11.290	5.134	6.968
2016	0.130	0.124	0.025	0.043	5.054	2.833	9.354	11.559	5.228	7.070

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graphs 7- 8- 9- 10-11: Capital Adequacy ratios evolution in CBs and PBs (2005–2016)

Source: Edited by the writer.

The Capital Adequacy Ratios in CBs and PBs for 10 years (2005-2016) seen in Table 14 and graphs 7,8,9,10,11 show that in general the capital adequacy of CBs is higher than their counterpart (PBs).

4.2.2. (A) Asset Quality

Table 15

Asset Quality Tools in CBs (2005-2016)

Conventional Banks						
year	**Shareh. equity**	**Total credit**	**Banking income**	**Total assets**	**Total deposit**	**Fix Assets**
2005	47,482.23	143,975.27	5,119.10	384,096.92	243,120.92	7,283.69
2006	50,409.21	202,466.73	6,438.46	470,634.57	296,495.02	6,995.57
2007	64,533.48	262,572.26	8,041.80	543,272.47	342,030.88	7,428.55
2008	72,059.81	338,091.34	9,648.20	683,823.26	435,553.91	8,865.92
2009	93,832.59	355,285.26	10,139.59	773,357.13	487,908.97	8,990.52
2010	114,978.96	479,018.22	10,705.37	932,370.68	583,947.44	8,962.65
2011	123,007.33	621,379.04	12,713.68	1,119,910.66	656,275.77	9,006.09
2012	157,553.01	716,307.06	14,182.41	1,247,653.13	724,295.66	9,104.64
2013	165,954.39	939,772.41	16,234.68	1,566,190.40	884,456.64	10,145.29
2014	201,116.45	1,118,884.57	19,027.64	1,805,437.99	987,463.08	14,863.22
2015	228,143.93	1,338,445.18	20,746.65	2,130,600.52	1,171,251.45	23,083.59
2016	262,503.20	1,557,270.07	22,309.91	2,455,365.62	1,372,359.32	24,665.04

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 16

Asset Quality Tools in PBs (2005-2016)

Participation Banks						
Year	**Shareho. equity**	**Total credit**	**Banking income**	**Total assets**	**Total deposit**	**Fix Assets**
2005	951.09	6,473.63	131.44	9,945.43	8,369.16	228.43
2006	1,559.71	9,322.66	132.85	13,751.58	11,151.82	231.12
2007	2,363.81	14,071.91	192.83	19,445.32	14,834.17	288.96
2008	3,728.93	17,641.18	326.22	25,770.13	19,045.29	548.95
2009	4,419.56	23,640.59	326.25	33,628.04	26,711.41	754.17
2010	5,457.08	30,823.14	290.57	43,338.70	33,089.46	614.45
2011	6,193.63	38,537.92	380.78	56,148.34	39,220.35	825.06
2012	7,376.81	47,961.19	498.59	70,279.38	47,921.10	1,149.19
2013	8,832.65	62,029.46	577.69	96,074.73	61,313.32	1,211.66
2014	9,673.04	64,065.24	670.39	104,319.07	65,229.93	1,564.08
2015	10,644.81	72,037.65	633.06	120,182.94	74,176.42	1,628.89
2016	11,495.71	75,895.84	562.20	132,873.84	81,272.69	1,833.16

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 17

Asset Quality ratios in CBs and PBs (2005- 2016)

	Total credit/total assets		banking income/total assets		Deposit/total assets		Fix assets/ Equity		Fix assets/ total assets	
Assets quality	**Conv.**	**Part.**	**Conv**	**Part.**	**Conv**	**Part**	**Conv.**	**Part.**	**Conv**	**Part.**
2005	0.375	0.651	0.013	0.013	0.633	0.842	0.153	0.240	0.019	0.023
2006	0.430	0.678	0.014	0.010	0.630	0.811	0.139	0.148	0.015	0.017
2007	0.483	0.724	0.015	0.010	0.630	0.763	0.115	0.122	0.014	0.015
2008	0.494	0.685	0.014	0.013	0.637	0.739	0.123	0.147	0.013	0.021
2009	0.459	0.703	0.013	0.010	0.631	0.794	0.096	0.171	0.012	0.022
2010	0.514	0.711	0.011	0.007	0.626	0.764	0.078	0.113	0.010	0.014
2011	0.555	0.686	0.011	0.007	0.586	0.699	0.073	0.133	0.008	0.015
2012	0.574	0.682	0.011	0.007	0.581	0.682	0.058	0.156	0.007	0.016
2013	0.600	0.646	0.010	0.006	0.565	0.638	0.061	0.137	0.006	0.013
2014	0.620	0.614	0.011	0.006	0.547	0.625	0.074	0.162	0.008	0.015
2015	0.628	0.599	0.010	0.005	0.550	0.617	0.101	0.153	0.011	0.014
2016	0.634	0.571	0.009	0.004	0.559	0.612	0.094	0.159	0.010	0.014

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Graph 12- 13- 14 15- 16: Asset Quality Ratios Evolution in CBs and PBs (2005– 2016)

Source: Edited by the writer.

The Asset Quality ratios in CBs and PBs for 10 years (2005-2016) seen in Table 17 and graphs 12, 13, 14, 15, 16 generally show that the asset quality of CBs is somehow higher than the asset quality in CBs

4.2.3. (M) Management Quality

Table 18

Management Quality Tools in CBs (2005-2016)

Conventional Banks							
Year	**Profit & lost**	**Total assets**	**Total liabilities**	**Total deposit**	**Local branches**	**Foreign branches**	**Total branches**
2005	5,032.12	384,096.92	384,096.92	243,120.92	6,196.00	45	6,241.00
2006	10,242.66	470,634.57	470,634.57	296,495.02	6,860.00	44	6,904.00
2007	13,467.94	543,272.47	543,272.47	342,030.88	7,609.00	49	7,658.00
2008	11,851.11	683,823.26	683,823.26	435,553.91	8,672.00	52	8,724.00
2009	18,489.70	773,357.13	773,357.13	487,908.97	8,915.00	53	8,968.00
2010	20,518.22	932,370.68	932,370.68	583,947.44	9,356.00	63	9,419.00
2011	18,176.87	1,119,910.66	1,119,910.66	656,275.77	9,718.00	73	9,791.00
2012	21,539.31	1,247,653.13	1,247,653.13	724,295.66	10,115.00	76	10,191.00
2013	22,473.32	1,566,190.40	1,566,190.40	884,456.64	10,902.00	79	10,981.00
2014	22,927.17	1,805,437.99	1,805,437.99	987,463.08	11,099.00	81	11,180.00
2015	23,888.59	2,130,600.52	2,130,600.52	1,171,251.45	11,069.00	80	11,149.00
2016	34,223.88	2,455,365.62	2,455,365.62	1,372,359.32	10,669.00	80	10,749.00

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 19

Management quality Tools in PBs (2005-2016)

Participation Banks							
year	**Profit & lost**	**Total assets**	**Total liabilities**	**Total deposit**	**Local branches**	**Foreign branches**	**Total branches**
2005	250.14	9,945.43	384,096.92	8,369.16	291	1	292
2006	391.04	13,751.58	470,634.57	11,151.82	355	1	356
2007	527.38	19,445.32	543,272.47	14,834.17	421	1	422
2008	647.49	25,770.13	683,823.26	19,045.29	535	1	536
2009	705.08	33,628.04	773,357.13	26,711.41	568	1	569
2010	759.18	43,338.70	932,370.68	33,089.46	605	2	607
2011	802.87	56,148.34	1,119,910.66	39,220.35	682	3	685
2012	915.96	70,279.38	1,247,653.13	47,921.10	825	4	829
2013	1,051.63	96,074.73	1,566,190.40	61,313.32	961	4	965
2014	143.84	104,319.07	1,805,437.99	65,229.93	986	4	990
2015	408.59	120,182.94	2,130,600.52	74,176.42	1,076.00	4	1,080.00
2016	1,105.51	132,873.84	2,455,365.62	81,272.69	956	3	959

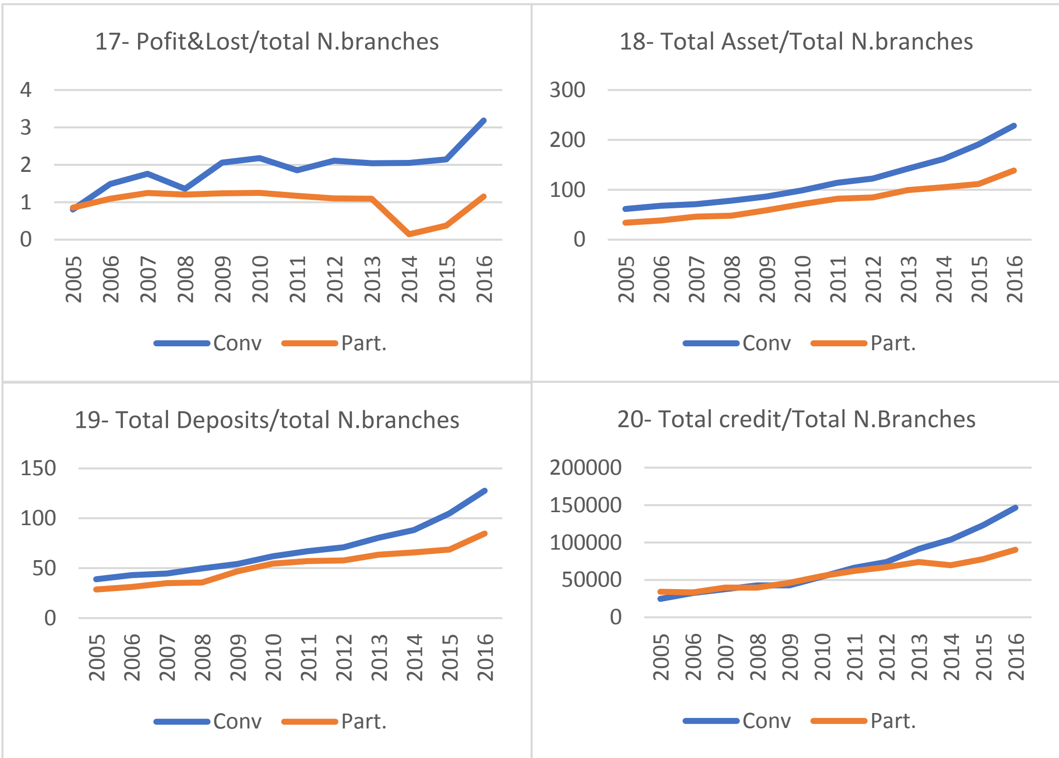
Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 20

Management Quality ratios in CBs and PBs (2005- 2016)

	Pofit&Lost/total N.branches		Total Asset/Total N.branches		Total Liabilities/ total N.Branches		Total Deposits/total N.branches		Total Credit/Total N.Branches	
Management quality	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**
2005	0.806	0.857	61.544	34.060	61.544	34.060	38.955	28.661	24632.629	33977.047
2006	1.484	1.098	68.168	38.628	68.168	38.628	42.945	31.325	32463.150	33278.999
2007	1.759	1.250	70.942	46.079	70.942	46.079	44.663	35.152	37503.858	39505.582
2008	1.358	1.208	78.384	48.079	78.384	48.079	49.926	35.532	42719.010	39682.360
2009	2.062	1.239	86.235	59.100	86.235	59.100	54.406	46.944	42661.778	45985.992
2010	2.178	1.251	98.988	71.398	98.988	71.398	61.997	54.513	54314.743	54896.670
2011	1.856	1.172	114.382	81.968	114.382	81.968	67.028	57.256	66132.604	61841.322
2012	2.114	1.105	122.427	84.776	122.427	84.776	71.072	57.806	73939.703	67021.937
2013	2.047	1.090	142.627	99.559	142.627	99.559	80.544	63.537	91247.682	74017.092
2014	2.051	0.145	161.488	105.373	161.488	105.373	88.324	65.889	103840.238	69740.924
2015	2.143	0.378	191.102	111.281	191.102	111.281	105.054	68.682	123205.548	77499.937
2016	3.184	1.153	228.427	138.555	228.427	138.555	127.673	84.747	146463.213	90292.771

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 17- 18- 19- 20: Management quality ratios evolution in CBs and PBs (2005–2016)

Source: Edited by the writer.

The Management quality ratios in CBs and PBs for 10 years (2005-2016) seen in Table 20 and graphs 17, 18, 19, 20 generally show that the management seems to be far better in CBs more than in PBs.

4.2.4. (E)Earnings

Table 21

Earnings Tools in CBs (2005-2016)

Conventional Banks							
Year	**Fees and commissions/ expenses**	**deposit cost**	**total deposit**	**profit & lost**	**Shareh. equity**	**total assets**	**credits income**
2005	56.02	19,774.74	243,120.92	5,032.12	47,482.23	384,096.92	19,689.78
2006	63.01	27,246.13	296,495.02	10,242.66	50,409.21	470,634.57	27,096.34
2007	64.83	34,363.72	342,030.88	13,467.94	64,533.48	543,272.47	36,956.17
2008	62.70	42,447.72	435,553.91	11,851.11	72,059.81	683,823.26	48,772.30
2009	66.15	33,564.92	487,908.97	18,489.70	93,832.59	773,357.13	48,503.65
2010	61.09	30,043.35	583,947.44	20,518.22	114,978.96	932,370.68	43,856.17
2011	65.19	35,632.87	656,275.77	18,176.87	123,007.33	1,119,910.66	54,149.62
2012	64.60	41,580.67	724,295.66	21,539.31	157,553.01	1,247,653.13	72,354.11
2013	64.76	37,728.65	884,456.64	22,473.32	165,954.39	1,566,190.40	76,927.00
2014	67.61	49,653.43	987,463.08	22,927.17	201,116.45	1,805,437.99	97,992.75
2015	65.27	58,167.46	1,171,251.45	23,888.59	228,143.93	2,130,600.52	122,191.21
2016	65.40	70,543.48	1,372,359.32	34,223.88	262,503.20	2,455,365.62	148,152.13

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 22

Earnings Tools in PBs (2005-2016)

Participation Banks							
Year	**Fees and commission s/ expenses**	**Deposit cost**	**Total deposit**	**Profit & lost**	**Shareh. equity**	**Total assets**	**credit income**
2005	77.78	550.19	243,120.92	5,032.12	951.09	9,945.43	838.58
2006	78.28	777.54	296,495.02	10,242.66	1,559.71	13,751.58	1,226.07
2007	84.37	1,079.92	342,030.88	13,467.94	2,363.81	19,445.32	1,706.67
2008	83.58	1,519.08	435,553.91	11,851.11	3,728.93	25,770.13	2,466.19
2009	75.96	1,805.15	487,908.97	18,489.70	4,419.56	33,628.04	2,961.04
2010	67.13	1,637.52	583,947.44	20,518.22	5,457.08	43,338.70	2,846.25
2011	68.00	1,768.39	656,275.77	18,176.87	6,193.63	56,148.34	3,447.05
2012	66.71	2,255.32	724,295.66	21,539.31	7,376.81	70,279.38	4,715.36
2013	61.21	2,260.25	884,456.64	22,473.32	8,832.65	96,074.73	5,074.39
2014	54.72	2,802.69	987,463.08	22,927.17	9,673.04	104,319.07	5,809.40
2015	51.19	3,143.06	1,171,251.45	23,888.59	10,644.81	120,182.94	6,492.84
2016	49.80	3,634.72	1,372,359.32	34,223.88	11,495.71	132,873.84	7,183.92

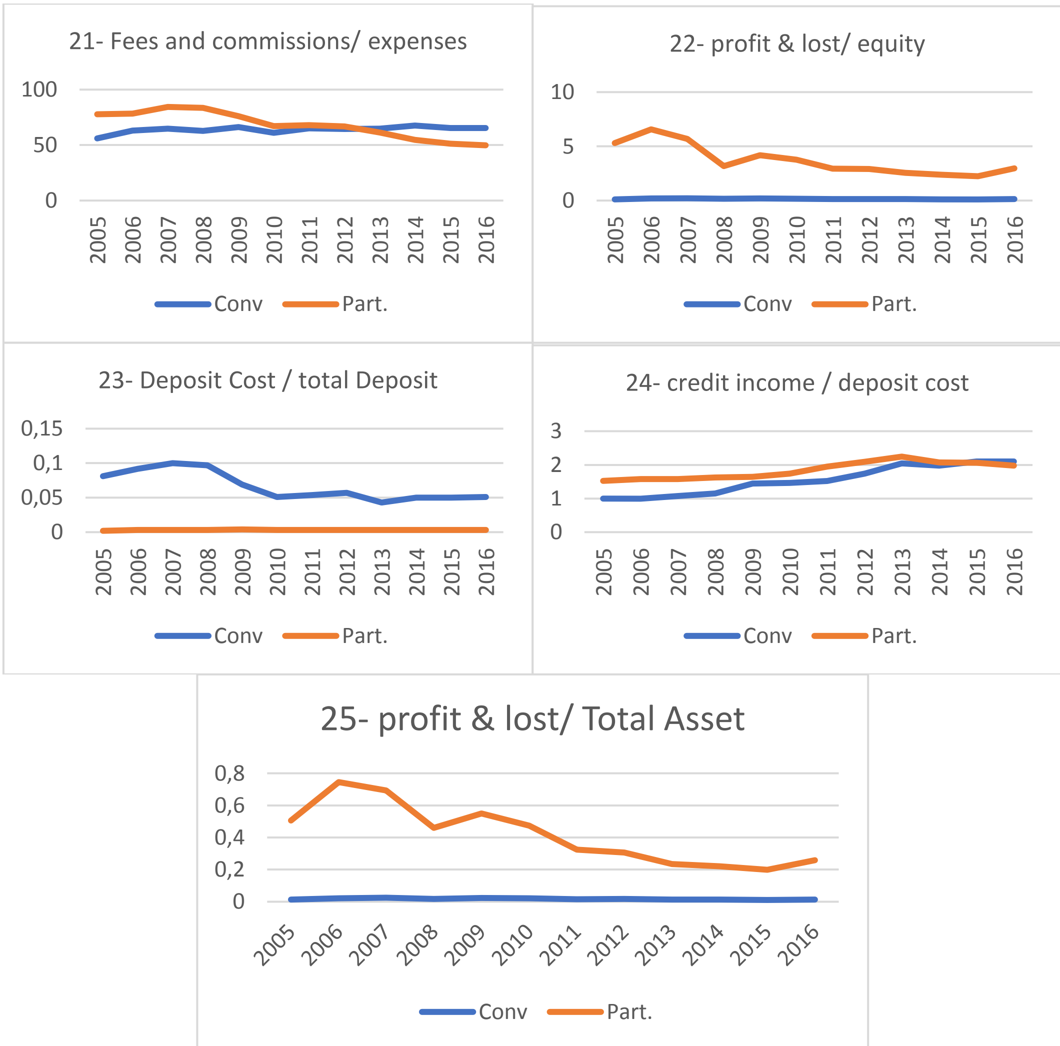
Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Tables 23

Earnings ratios in CBs and PBs (2005- 2016)

	Fees and commissions/ expenses		Profit & lost/ equity		Deposit Cost / total Deposit		Credit income / deposit cost		Profit & lost/ Total Asset	
Earnings	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**
2005	56.022	77.782	0.106	5.291	0.081	0.002	0.996	1.524	0.013	0.506
2006	63.011	78.282	0.203	6.567	0.092	0.003	0.995	1.577	0.022	0.745
2007	64.829	84.372	0.209	5.698	0.100	0.003	1.075	1.580	0.025	0.693
2008	62.703	83.577	0.164	3.178	0.097	0.003	1.149	1.623	0.017	0.460
2009	66.153	75.963	0.197	4.184	0.069	0.004	1.445	1.640	0.024	0.550
2010	61.088	67.129	0.178	3.760	0.051	0.003	1.460	1.738	0.022	0.473
2011	65.187	68.002	0.148	2.935	0.054	0.003	1.520	1.949	0.016	0.324
2012	64.604	66.711	0.137	2.920	0.057	0.003	1.740	2.091	0.017	0.306
2013	64.761	61.209	0.135	2.544	0.043	0.003	2.039	2.245	0.014	0.234
2014	67.605	54.719	0.114	2.370	0.050	0.003	1.974	2.073	0.013	0.220
2015	65.266	51.193	0.105	2.244	0.050	0.003	2.101	2.066	0.011	0.199
2016	65.404	49.805	0.130	2.977	0.051	0.003	2.100	1.976	0.014	0.258

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph: 21- 22- 23- 24- 25: Earnings ratios evolution in CBs and PBs (2005 – 2016)

Source: Edited by the writer.

The Earnings ratios in CBs and PBs for 10 years (2005-2016) seen in Table 23 and graphs 21, 22, 23, 24, 25 generally show that earning is considerably high in PBs than CBs. We should also emphasize that the main source of revenue of PBs is based on commissions & dividend not on interest.

4.2.4.1. Interest Rate or Dividend

PBs have been giving dividends that are not identical to the interest rates provided by CBs, but the look close to each other. PBs operating funds in Turkey are composed as followed: around 70% - 80% for production support (murabaha), 5% - 10% available for profit-loss basis (mudaraba and musharaka). And because of the volume of loans in the market, which is about 95%. if clients in PBs have to earn dividends that are very less than the interest paid in conventional banks client will definitely prefer the conventional banks, as a result PBs won't be able to receive deposits which means they couldn't perform and to avoid funds remaining idle and fall in losses; PBs have to manage to keep their dividends closed to conventional banks interest[24].

It is very important for the bankers to increase the non-interest income and reduce the operational expenses in the environment where the inflation rate falls.

4.2.5. (L)Liquidity status

Table 24

Liquidity Tools in CBs (2005-2016)

conventional Banks						
year	**liquidity adequacy ratio**	**total credit**	**total assets**	**Security/ Total deposit**	**current asset**	**demand deposit**
2005	-	143,975.27	384,096.92	57.94	376,813.23	-
2006	-	202,466.73	470,634.57	53.02	463,639.00	-
2007	167.07	262,572.26	543,272.47	47.42	535,843.93	-
2008	165.34	338,091.34	683,823.26	44.00	674,957.34	-
2009	167.88	355,285.26	773,357.13	52.99	764,366.61	-
2010	162.57	479,018.22	932,370.68	48.30	923,408.02	91,861.27
2011	150.06	621,379.04	1,119,910.66	42.36	1,110,904.57	111,207.93
2012	155.80	716,307.06	1,247,653.13	36.14	1,238,548.49	127,867.14
2013	145.52	939,772.41	1,566,190.40	31.33	1,556,045.11	162,079.64
2014	143.49	1,118,884.57	1,805,437.99	29.43	1,790,574.77	182,466.28
2015	143.21	1,338,445.18	2,130,600.52	27.03	2,107,516.92	218,210.93
2016	135.88	1,557,270.07	2,455,365.62	24.42	2,430,700.58	272,453.28

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

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Table 25

Liquidity Tools in PBs (2005-2016)

Participation Banks						
year	**liquidity adequacy ratio**	**total credit**	**total assets**	**Security/ Total deposit**	**current asset**	**demand deposit**
2005	-	6,473.63	9,945.43	0.23	9,717.00	-
2006	-	9,322.66	13,751.58	0.05	13,520.46	-
2007	238.89	14,071.91	19,445.32	0.10	19,156.37	-
2008	215.32	17,641.18	25,770.13	0.13	25,221.17	-
2009	232.44	23,640.59	33,628.04	3.85	32,873.87	-
2010	238.25	30,823.14	43,338.70	4.32	42,724.25	6,391.04
2011	204.67	38,537.92	56,148.34	5.05	55,323.27	9,959.69
2012	194.88	47,961.19	70,279.38	5.13	69,130.20	10,514.52
2013	174.31	62,029.46	96,074.73	7.87	94,863.08	15,046.25
2014	170.74	64,065.24	104,319.07	10.35	102,754.99	15,984.03
2015	160.85	72,037.65	120,182.94	10.18	118,554.05	20,136.63
2016	152.03	75,895.84	132,873.84	12.86	131,040.68	23,048.66

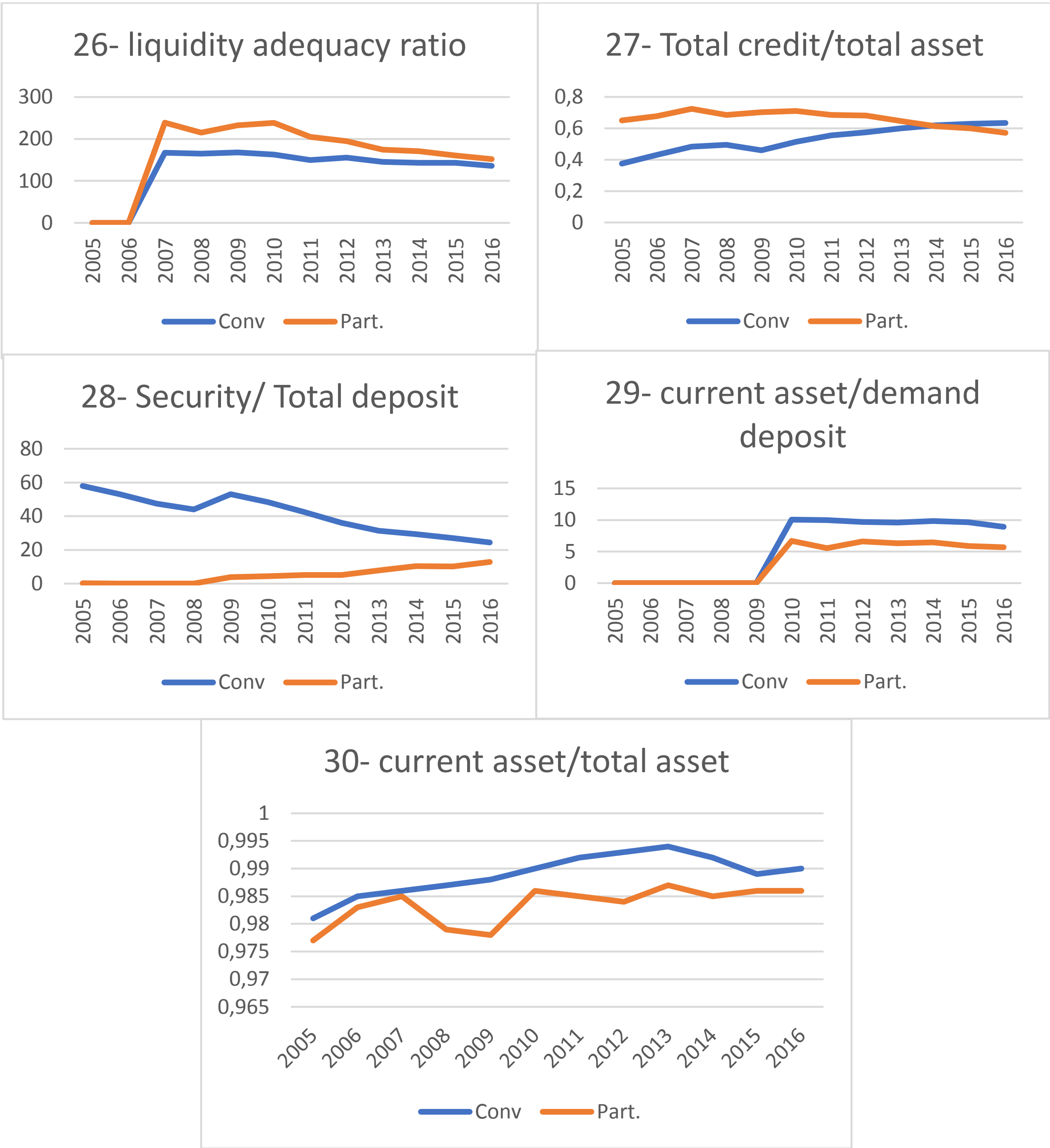
Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 26

Liquidity ratios in CBs and PBs (2005 – 2016)

	liquidity adequacy ratio		**Total credit/total asset**		**Security/ Total deposit**		**current asset/demand deposit**		**current asset/total asset**	
liquidity	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**
2005	-	-	0.375	0.651	57.937	0.230	-	-	0.981	0.977
2006	-	-	0.430	0.678	53.016	0.048	-	-	0.985	0.983
2007	167.068	238.888	0.483	0.724	47.415	0.101	-	-	0.986	0.985
2008	165.339	215.320	0.494	0.685	43.997	0.126	-	-	0.987	0.979
2009	167.883	232.443	0.459	0.703	52.993	3.851	-	-	0.988	0.978
2010	162.572	238.251	0.514	0.711	48.304	4.320	10.052	6.685	0.990	0.986
2011	150.058	204.669	0.555	0.686	42.362	5.047	9.989	5.555	0.992	0.985
2012	155.804	194.878	0.574	0.682	36.140	5.131	9.686	6.575	0.993	0.984
2013	145.519	174.305	0.600	0.646	31.330	7.874	9.600	6.305	0.994	0.987
2014	143.486	170.737	0.620	0.614	29.425	10.347	9.813	6.429	0.992	0.985
2015	143.211	160.848	0.628	0.599	27.029	10.183	9.658	5.887	0.989	0.986
2016	135.875	152.029	0.634	0.571	24.419	12.865	8.922	5.685	0.990	0.986

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)



Graph 26- 27- 28- 29- 30: Liquidity ratios evolution in CBs and PBs (2005 – 2016)

Source: Edited by the writer.

The Liquidity ratios in CBs and PBs for 10 years (2005-2016) seen in Table 25 and graphs 26, 27, 28, 29, 30 generally show that CBs are more liquid than PBs.

4.2.6. (S) Sensitivity to Market Risk

Table 27

Sensitivity Tools in CBs (2005-2016)

Conventional Banks							
year	**non-performing debt**	**Non-performing debts/Loans**	**Provisions of non-performing debts/non-preforming loan**	**Net Interest After Provision**	**total assets**	**Demand Deposits / Total Deposits**	**Up to 3 Months Flood-Sensitive Assets / Up to 3 Months Flood-Sensitive Liabilities**
2005	7,339.52	4.85	89.73	15,263.17	384,096.92	20.18	89.81
2006	7,997.40	3.80	90.67	17,647.29	470,634.57	17.59	88.36
2007	9,664.87	3.55	88.33	21,160.64	543,272.47	15.99	78.56
2008	13,012.36	3.71	81.20	23,100.25	683,823.26	13.52	75.92
2009	20,341.89	5.42	84.64	29,526.81	773,357.13	15.40	77.82
2010	18,537.42	3.73	84.64	30,849.75	932,370.68	15.73	70.84
2011	17,379.25	2.72	80.44	32,352.35	1,119,910.66	16.95	70.02
2012	21,594.17	2.93	75.21	40,729.47	1,247,653.13	17.65	80.37
2013	26,935.64	2.79	77.54	42,848.18	1,566,190.40	18.33	78.38
2014	32,754.13	2.84	75.15	48,099.55	1,805,437.99	18.48	73.84
2015	42,726.12	3.09	76.18	56,234.20	2,130,600.52	18.64	72.53
2016	54,300.49	3.37	78.55	63,618.37	2,455,365.62	19.86	73.99

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 28

Sensitivity Tools in PBs (2005-2016)

Conventional Banks							
year	non-performing debt	Non-performing debts/Loans	Provisions of non-performing debts/non-preforming loan	Net Interest After Provision	total assets	Demand Deposits / Total Deposits	Up to 3 Months Flood-Sensitive Assets / Up to 3 Months Flood-Sensitive Liabilities
2005	311.40	4.10	61.70	400.69	9,945.43	23.44	0.00
2006	368.53	3.51	64.88	564.53	13,751.58	21.82	0.00
2007	518.63	3.37	55.47	782.91	19,445.32	18.80	0.00
2008	837.25	4.40	54.86	991.70	25,770.13	17.98	0.00
2009	1,182.20	4.70	67.90	971.81	33,628.04	18.88	0.00
2010	1,116.19	3.47	70.67	1,202.33	43,338.70	19.31	71.04
2011	1,242.59	3.08	65.43	1,423.48	56,148.34	25.39	89.49
2012	1,515.07	3.01	75.12	1,737.39	70,279.38	21.94	87.41
2013	2,260.61	3.42	63.19	1,937.50	96,074.73	24.54	76.85
2014	3,190.13	4.54	62.29	1,354.45	104,319.07	24.50	72.20
2015	4,335.26	5.40	59.06	2,245.98	120,182.94	27.15	74.55
2016	3,262.47	3.92	62.10	2,501.60	132,873.84	28.36	74.95

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Table 29

Sensitivity ratios in CBs and PBs (2005 – 2016)

	Non-performing debt / Loans		Provisions of non-performing debts/non-preforming loan		Net Interest After Provision / total asset		demand Deposits / total Deposits		3 Months Flood-Sensitive Assets / 3 Months Flood-Sensitive Liabilities	
Sensitivity to market risk	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**	**Conv**	**Part**
2005	4.850	4.098	89.726	61.705	0.040	0.040	20.177	23.439	89.807	0.000
2006	3.800	3.514	90.670	64.876	0.037	0.041	17.589	21.821	88.361	0.000
2007	3.550	3.368	88.335	55.475	0.039	0.040	15.993	18.800	78.564	0.000
2008	3.706	4.396	81.204	54.859	0.034	0.038	13.519	17.979	75.923	0.000
2009	5.415	4.701	84.637	67.904	0.038	0.029	15.396	18.885	77.820	0.000
2010	3.726	3.469	84.642	70.673	0.033	0.028	15.731	19.314	70.842	71.038
2011	2.721	3.084	80.442	65.431	0.029	0.025	16.945	25.394	70.020	89.487
2012	2.926	3.013	75.213	75.117	0.033	0.025	17.654	21.941	80.371	87.405
2013	2.786	3.417	77.542	63.194	0.027	0.020	18.325	24.540	78.383	76.854
2014	2.844	4.541	75.147	62.295	0.027	0.013	18.476	24.504	73.839	72.197
2015	3.092	5.400	76.175	59.056	0.026	0.019	18.637	27.147	72.529	74.554
2016	3.368	3.917	78.546	62.100	0.026	0.019	19.857	28.360	73.990	74.947

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data (2005-2016)

Graph 31- 32- 33- 34- 35: Sensitivity ratios evolution in CBs and PBs (2005 – 2016)

Source: Edited by the writer.

Sensitivity to market risk ratios in CBs and PBs for 10 years (2005-2016) seen in Table 29 and graphs 31, 32, 33, 34, 35 generally show that in term of sensitivity PBs are much more sensitive than CBs.

DISCUSSION & CONCLUSION

CAMELS is one of the most important financial performance measurement tools used in the field of banking, aimed at increasing the degree of supervision of banks performances. The Turkish Banking Regulation and Supervision Agency has put CAMELS related ratios into practice in the financial system just like many developed and developing countries with the aim of increasing financial efficiency and strengthening the banking system against crises.

In this study, our aim is to compare the performances of the CBs which have the biggest market share of the banking system in the country and the performances of the PBs in terms of various financial ratios, following CAMELS Criteria. For that purpose; data covering 10 years (2005-2015) of both banking sectors were gathered from BDDK (BRSA: Banking Regulation and Supervision Agency) and evaluated.

While it is possible to find hundreds of resources related to our study: comparing the financial performances of CBs and PBs, the study of performance benchmarking of CBs and PBs in terms CAMELS are few and don’t cover the period chosen in our case of study.

From that point of view, this study, may contains some limitations because it doesn’t cover the whole accession period of interest-free banking in Turkey (since 1985). But if we have chosen 2005 as a starting point, it is due to the fact that, the status of a bank was not yet granted to SFH(s) till 2005, when they become legally considered as banks. The result could also have been influenced by the poor performance of new operator in the sector of PBs (Ziraat participation and Vakif participation) and also the financial crisis of 2008 that has severely affected CBs.

According to the findings of the research, it has been identified banks have achieved a significant growth trend in recent years. But due to some effects on the financial structures such as an increase in capital adequacy ratios, banks have taken various steps in order to better manage their assets and to have a stronger financial structure. Unfortunately, this may have affected profitability and growth ratios for both types of banks negatively. As a matter of fact, for both types of banks, almost all growth and profitability ratios (earing) decreased proportionally to the growth in capital adequacy.

we can see that assets are growing in both types of banks. However, in parallel with the growth in assets, there has been a decrease in the effective use of assets, which affected the asset profitability. But In this new era, banks have started to take various steps to improve their profitability and growth rates, to manage their assets better and to have a stronger financial structure.

The instability and other problem that have been affecting the country have also adversely affected the banking sector in terms of assets, deposits, loans and profits. Although PBs have diversified fund resources through sukuk issuances in recent years, reducing both the cost of resources and the prolongation of the maturity, making liquidity conditions more liquid than CBs liquidity ratios, their capital adequacy ratios are lower than CBs and they are seen to be riskier than CBs

From the preceding financial indicators, it is clear that CBs with the highest rate of financial assets (90.6%) perform more than PBs, but it is very important to notify that, the fastest growing sector in the whole banking sector is PBs, and therefore the sector need a support from the government, the Central Bank, private sector and other financial institutions to realize a real integration which can boost and facilitate financial inclusion.

Banks, which are the most important institutions of the Turkish financial system today, is not sufficient by itself but at the same time, a healthy and realistic growth is very important. Past experiences have shown that crises in the financial system affect dramatically banking sector. In order to prevent or minimize the effect of financial crises, various structural reforms must be made in the banking sector and other financial institutions.

The diversification through the entry of new products into the participation banks financial system will stimulate diversification and give investors several investment options, what will Enhance an effective competition between both competitors (PBs & CBs). And enable the development of the real sector, due to the fact that it is an asset-based lending, which will contribute to the development of the real sector of the economy. And finally, the education of both consumers and industry participants is key to the further development of the country’s nascent Islamic finance industry and the instauration of Islamic economics and finance in university program will ease the process of awareness regarding Islamic Finance, therefore improve the sector's financial performances and make Turkey a hub of Islamic Banking.

Against the background of what has been achieved so far especially with regards to regulatory requirements, it may not be out of place to say that with other things appropriately addressed, Islamic banking in Turkey has a prospect for success. Other factors that are likely to increase the prospect include the acceptance of PBs as a potential alternative to the CBs.

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CURRICULUM VITAE

Born in Togo in 1987, Imanou AKALA completed his primary, secondary and high school education in Togo. In 2012 under the Government scholarship, he completed his Bachelor studies in Accounting and Management. After working for 2 years as an Assistant Accountant in his country (Togo), in 2015, he started his graduate studies in Business at Sakarya University in the field of Accounting and Finance.