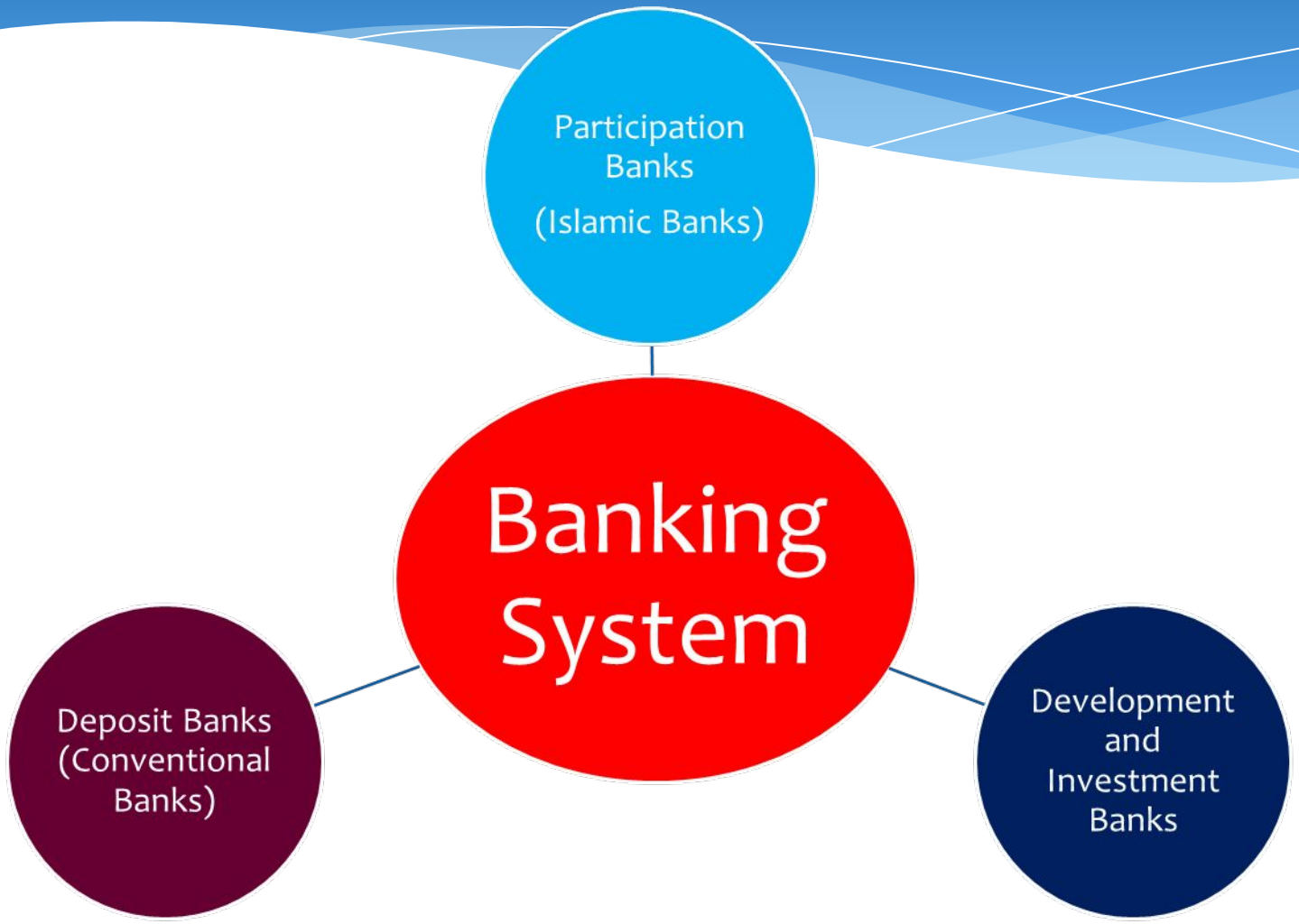
THE PARTICIPATION BANKS ASSOCIATION OF TURKEY

PARTICIPATION BANKS

IN THE FINANCIAL SYSTEM OF TURKEY

December, 2015

THE BANKING SYSTEM OF TURKEY



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THE VOLUME OF TURKISH BANKING SECTOR (2015)

BANKS	Nr. of Inst.	IN ASSETS VOLUME		IN DEPOSITS VOLUME		IN LOANS VOLUME	
		Mio TRY	SHARE (%)	Mio TRY	SHARE (%)	Mio TRY	SHARE (%)
Participation Banks (Islamic Banks)	5	119.720	5,2	74.366	6,3	78.147	5,2
Deposit Banks (Conventional Banks)	32	2.122.513	90,4	1.168.923	93,7	1.358.242	89,9
Development and Investment Banks	13	105.482	4,4	0	0	74.611	4,9
Total	**50**	**2.347.715**	**100**	**1.243.289**	**100**	**1.511.000**	**100**

***As per BRSA Report.**
***Deposits From Banks are excluded in deposits volume, Murabaha and Non-performing Loans are excluded in loans volume.**

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TURKISH BANKING REGULATION

* Conventional and participation banks can collect deposits (albeit under different structures) and utilize them through extension of credits, both corporate and retail.
* All three types of banking are regulated by the Banking Regulation and Supervision Agency (BRSA) under a single Banking Law and associated regulations. BRSA regulates and supervises all aspects of banking.
* The Central Bank is also involved with regards only to foreign currency operations and reserve requirements.

PARTICIPATION BANKS

* Not an alternative, but an integral component of Turkish Banking Sector.

* A third type of banking, together with Deposit Banks (Conventional Banks) and Development and Investment Banks.

* Participation Banks are functionally similar to Deposit Banks. But collecting and lending methods of funds are different.

INTEREST-FREE BANKİNG REGULATORY ENVİRONMENT

* There is no separate regulation regarding participation banking. The law however distinguishes between deposit and participation banking.
* Regulations governing fund collection and fund utilization are different between these two types of banks.
* Minor differences in accounting methods.
* The law taking into account the nature of the profit and loss participation accounts, also allows for a slightly different calculation method for Capital Adequacy Ratio for participation banks.

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FUNDS COLLECTING INSTRUMENTS OF PARTICIPATION BANKS

* **SPECIAL CURRENT ACCOUNTS (DEMAND ACCOUNTS):**
  - drawn partially or completely at any call.
  - earnings unpaid,
  - liability covers principal.

* **PROFIT / LOSS PARTICIPATION ACCOUNTS (TIME DEPOSIT ACCOUNTS)**
  - Profit/Loss accrued at maturity is shared pro rata.
  - No profit ratio is fixed in advance.
  - no guarantee of any revenue or repayment of principal amount after tenor.

LENDING INSTRUMENTS OF PARTICIPATION BANKS

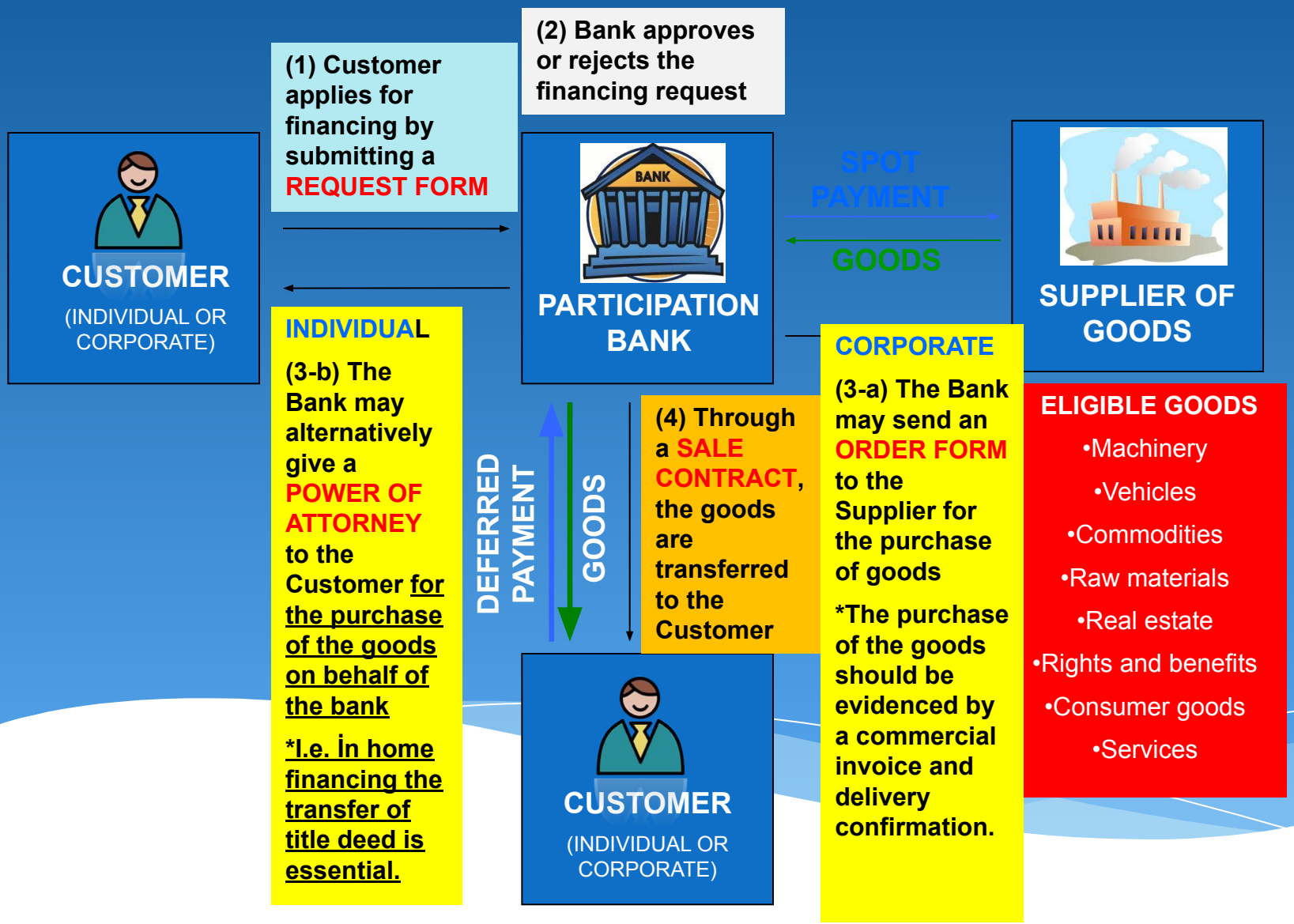
* **CORPORATE FINANCE SUPPORT :**

  - financing the purchase of goods and service required by the Customer,
  - costs of the goods and service are paid to the Seller,
  - Customer becomes indebted to the bank,
  - payment documents must be kept by the branch.

* **INDIVIDUAL FINANCE SUPPORT :**

  - financing the purchase of the vehicles, houses and consumer goods required by Consumers,
  - costs of houses, vehicles,..etc. to be purchased are paid to the Seller,
  - Customer becomes indebted to the bank.

INDIVIDUAL OR CORPORATE FINANCE SUPPORT BY PARTICIPATION BANKS



* **LEASING :**
  - movable/immovable goods are purchased by PBs,
  - purchased goods are hired to the Customer,
  - and transferred to the Lessee after the payments.

* **PROFIT AND LOSS PARTNERSHIP INVESTMENT:**
  - associate investment with the Customer is the case,
  - financing and labour parts, financing amount and profit/loss shares are determined,
  - Profit and Loss Sharing Investment Agreement is regulated before,
  - after completion of the investment or projects, profit or loss is shared by partners.

THE GROWTH OF PARTICIPATION BANKS

* ASSETS GROWTH
* FUNDS RAISED GROWTH
* ALLOCATED FUNDS GROWTH
* ALLOCATED FUNDS / RAISED FUNDS RATIO
* SHAREHOLDERS' EQUITY GROWTH
* MAIN FINANCIAL FIGURES of PBs
* BRANCHES AND STAFF GROWTH

Central Bank of the Republic of Turkey USD/TRY FX Rates for

31-Dec-2009 : 1.4945 ; 31-Dec-2010 :1.5450 ; 31-Dec-2011 : 1.8980 ; 31-Dec-2012 : 1.7862

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ASSETS GROWTH (Thousand TRY)

Years	PB.s	GROWTH %	BANKING SECTOR	SHARE %
2000	2.266.000		106.549.000	2,13%
2001	2.365.000	4,37%	218.873.000	1,08%
2002	3.962.000	67,53%	216.637.000	1,83%
2003	5.112.934	29,05%	254.863.000	2,01%
2004	7.298.601	42,75%	313.751.000	2,33%
2005	9.945.431	36,26%	406.915.000	2,44%
2006	13.729.720	38,05%	498.587.000	2,75%
2007	19.435.082	41,55%	580.607.000	3,35%
2008	25.769.427	32,59%	731.640.000	3,52%
2009	33.628.038	30,50%	833.968.000	4,03%
2010	43.339.000	28,88%	1.006.672.000	4,31%
2011	56.076.929	29,39%	1.217.711.000	4,61%
2012	70.279.000	25,33%	1.370.614.000	5,13%
2013	96.086.000	36,72%	1.732.413.000	5,55%
2014	104.319.000	8,56%	1.994.329.000	5,23%
2015	119.719.000	14,76%	2.347.715.000	5,10%

ASSETS GROWTH (% share)

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RAISED FUNDS (Thousand TRY)

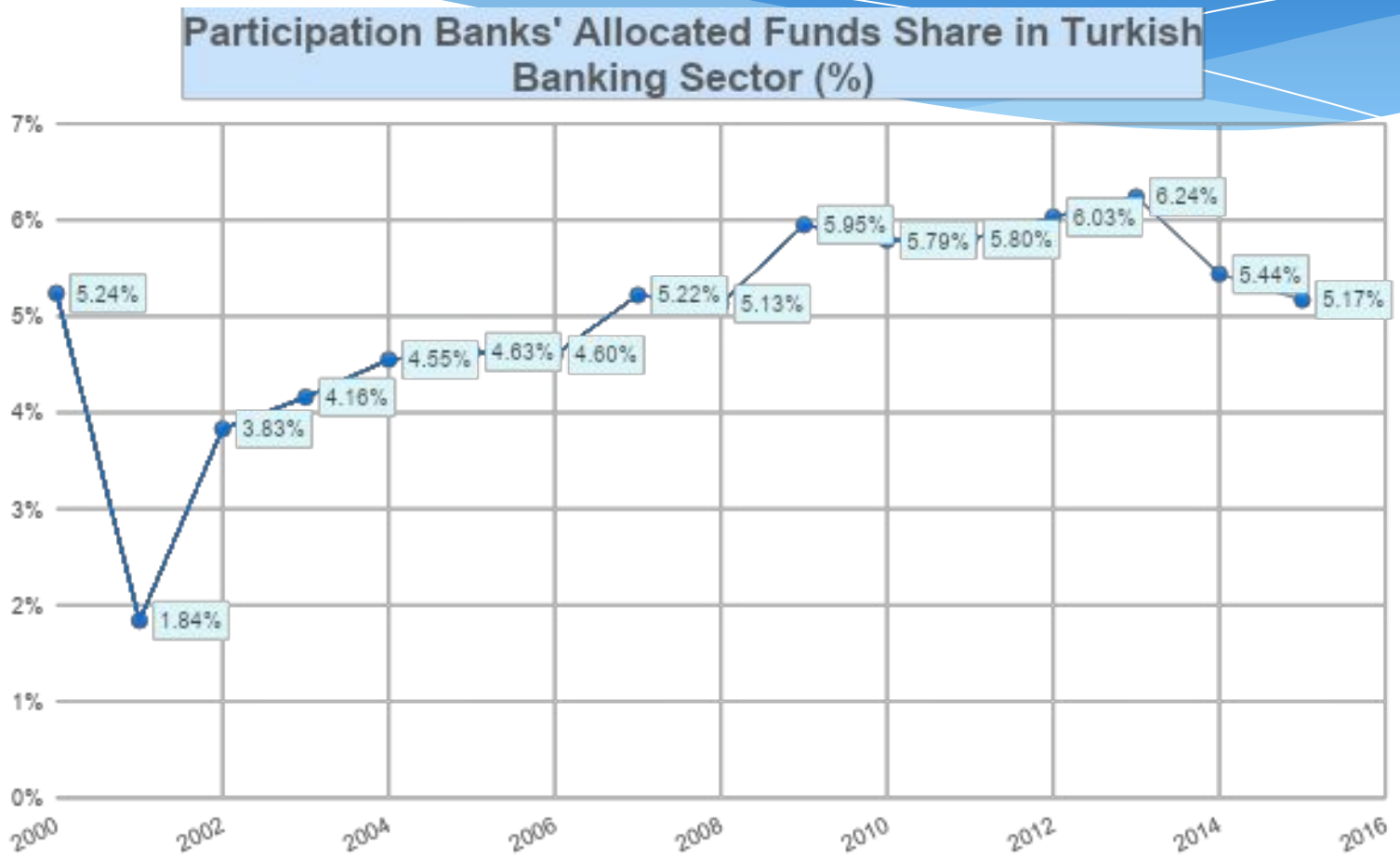
Years	PB.s	GROWTH %	BANKING SECTOR	SHARE %
2000	1.863.000		70.305.000	2,65%
2001	1.917.000	2,90%	149.438.000	1,28%
2002	3.206.000	67,24%	145.594.000	2,20%
2003	4.111.000	28,23%	164.923.000	2,49%
2004	5.992.000	45,76%	203.386.000	2,95%
2005	8.369.000	39,67%	261.948.000	3,19%
2006	11.237.000	34,27%	324.069.000	3,47%
2007	14.943.000	32,98%	371.927.000	4,02%
2008	19.210.000	28,56%	472.695.000	4,06%
2009	26.841.000	39,73%	522.415.000	5,14%
2010	33.828.000	26,03%	631.119.000	5,36%
2011	39.869.282	17,86%	707.510.000	5,64%
2012	48.198.000	20,89%	783.888.000	6,15%
2013	61.495.000	27,59%	949.319.000	6,48%
2014	65.405.000	6,73%	1.056.679.000	6,19%
2015	74.366.000	13,30%	1.243.288.000	6,00%

RAISED FUNDS (% share)

ALLOCATED FUNDS (Thousand TRY)

Years	PB.s	GROWTH %	BANKING SECTOR	SHARE %
2000	1.726.000		32.939.000	5,24%
2001	1.072.000	-37,89%	58.413.000	1,84%
2002	2.101.000	95,99%	54.860.000	3,83%
2003	3.001.000	42,84%	72.169.000	4,16%
2004	4.894.000	63,08%	107.615.000	4,55%
2005	7.407.000	51,35%	160.005.000	4,63%
2006	10.492.000	41,65%	228.141.000	4,60%
2007	15.332.000	46,13%	293.928.000	5,22%
2008	19.733.000	28,70%	384.417.000	5,13%
2009	24.911.209	26,24%	418.684.000	5,95%
2010	32.084.000	28,79%	554.128.000	5,79%
2011	41.103.435	28,11%	708.771.000	5,80%
2012	50.031.000	21,72%	829.597.000	6,03%
2013	67.219.000	34,35%	1.077.495.000	6,24%
2014	69.622.000	3,58%	1.280.126.000	5,44%
2015	78.147.000	12,24%	1.511.001.000	5,17%

ALLOCATED FUNDS (% share)

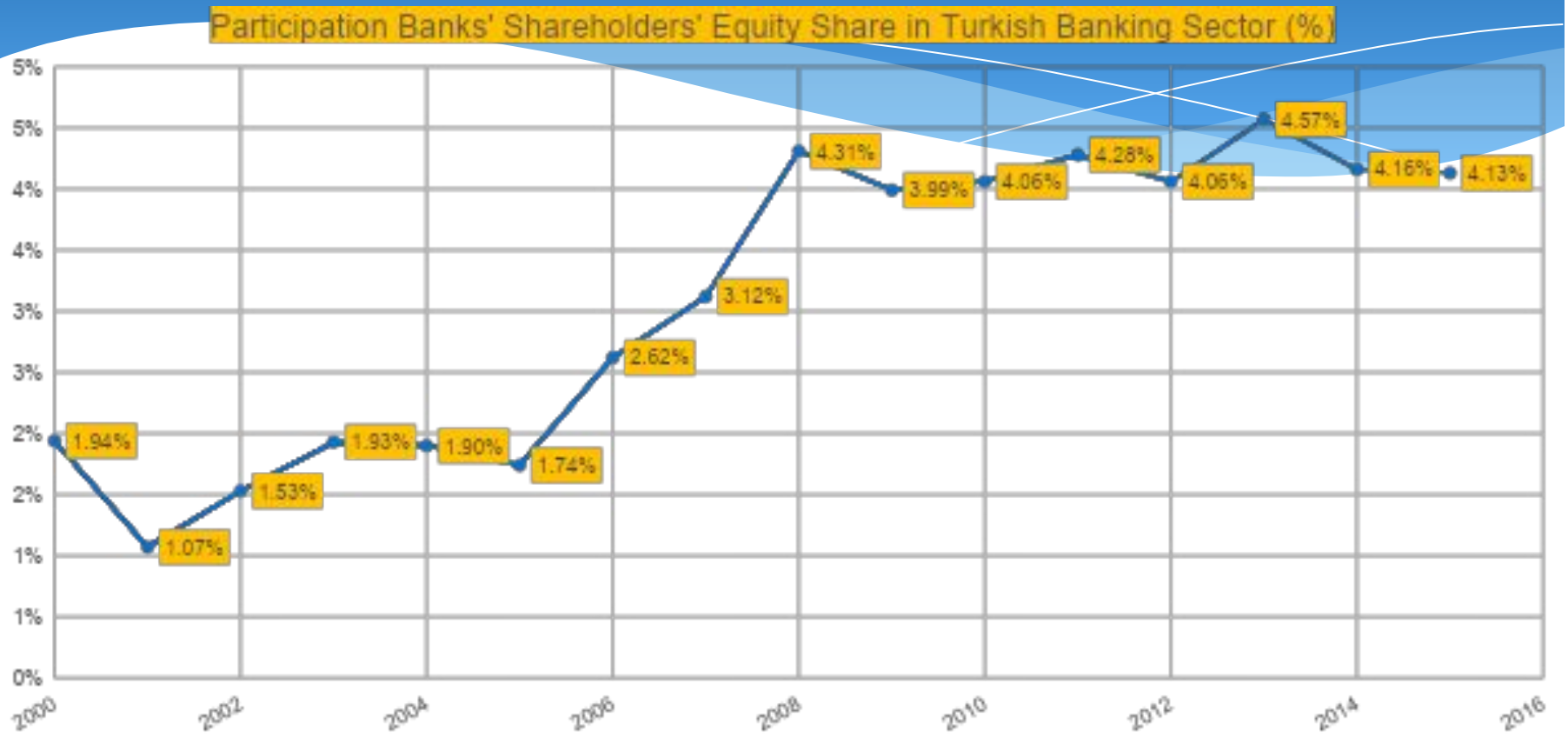


ALLOCATED FUNDS OVER RAISED FUNDS (%)

SHAREHOLDERS' EQUITY (Thousand TRY)

Years	PB.s	GROWTH %	BANKING SECTOR	SHARE %
2000	161.000		8.295.000	1,94%
2001	203.000	26,09%	19.003.000	1,07%
2002	400.000	97,04%	26.099.000	1,53%
2003	700.000	75,00%	36.208.000	1,93%
2004	892.000	27,43%	46.855.000	1,90%
2005	951.000	6,61%	54.687.000	1,74%
2006	1.560.000	64,04%	59.538.000	2,62%
2007	2.364.000	51,54%	75.850.000	3,12%
2008	3.729.000	57,74%	86.425.000	4,31%
2009	4.419.564	18,52%	110.874.000	3,99%
2010	5.457.000	23,47%	134.545.000	4,06%
2011	6.193.314	13,49%	144.650.000	4,28%
2012	7.377.000	19,11%	181.882.000	4,06%
2013	8.852.000	19,99%	193.745.000	4,57%
2014	9.673.000	9,27%	232.007.000	4,16%
2015	10.576.000	9,33%	255.988.000	4,13%

SHAREHOLDERS' EQUITY (% share)



MAIN FINANCIAL HEADINGS OF PB.s

TOPICS		TOTAL 2015	TOTAL 2014	Variance (%)
RAISED FUNDS	TRY	39.209	38.979	0,6%
	FC	32.986	23.004	43,4%
	FC-PRECIOUS METALS	2.171	3.422	-36,6%
	TOTAL	74.366	65.405	13,7%
ALLOCATED FUNDS		78.147	69.622	12,2%
NON-PERFORMING LOANS (NET)		1.759	1.199	46,7%
NON-PERFORMING LOANS (GROSS) / ALLOCATED FUNDS		5,7%	4,6%	23,9%
TOTAL ASSETS		119.719	104.163	14,9%
TOTAL SHAREHOLDERS' EQUITY		10.576	9.610	10,1%
PROFIT(NET)		375	473	-20,7%

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BRANCHES AND STAFF GROWTH

YEARS	BRANCHES	GROWTH (%)	STAFF	GROWTH (%)
2000	110		2.182	
2003	188	71%	3.520	61%
2004	255	36%	4.789	36%
2005	290	14%	5.740	20%
2006	355	22%	7.114	24%
2007	422	19%	9.215	30%
2008	530	26%	11.022	20%
2009	560	6%	11.802	7%
2010	607	8%	12.677	7%
2011	685	13%	13.857	9%
2012	829	21%	15.356	11%
2013	966	17%	16.763	9%
2014	990	2%	16.280	-3%
2015	1064	7%	16.566	2%

GENERAL OUTLOOK

1-**PARTICIPATION BANKS,** a component of the banking system in Turkey, have brought the idle funds into the system.

2-These banks have provided alternative financial opportunities to manufacturers and businessmen by funding.

3-Working in principle of profit/loss sharing base, the PB.s are less affected by the financial and economic crises lived i.e. in 2001 as an ordinary result of PLS system and healthy lending processes.

4-Participation Banks have been able to distribute satisfactory returns to their depositors (investors).

5-PB.s have been able to fund commercial and industrial sectors with lower and competitive costs.

6-Regular state auditings have greatly helped in developing the participation banks' working principles.

7-Because PBs do not invest in domestic government bonds, they have business plans in using the sources therein funding real sector enterprises.

8-PB.s can play an important role in drawing the excess capital observed in the Gulf region to Turkey. By means of Turkish Treaury's issuing Sukuk in 2012, it is possible to attract a considerable amount of capital into our country from the Gulf region. For that reason, issuing this instrument has made a contribution to Turkish economy.

9-In addition, PBs have taken a serious role in murabaha financing gathered from the Gulf region in the form of Syndicated Loans and this method became widespread. Till now, much than 1 billion dollars amount has been provided by the way of this model.

10-In banking sector the «definitive» implementation process of Basel-II began as of July 1st, 2012.

IN SUMMARY

Although nearly %50 of funds were drawn by depositors after the economic crises in 2000 and 2001, PB.s were able to survive and succeed. They did not cause extra burdens on Turkish economy and the public for they survived from these crises with the help of their own internal dynamics. These dynamics can be summarized as follows :

1-In the Liability side of the Balance-Sheet;

-In comparison with pre-fixed rates of liabilities, the profit and loss sharing methodology helped PBs to overcome the crises.

-Not carrying any interest risks, the PBs have not carried any foreign-exchange risks through making any foreign exchange position deficits.

2-In the Asset side of the Balance-Sheet;

-As a result of unique working principles of PB.s, i.e. all credit facilities (loans) are used in terms of a real solid project, funds are paid directly to the Vendor (supplier of commodity) after the purchase of equipments against invoices.., all prevent credits being used in risky and speculative areas on the contrary of their presenting purpose.

-Also, this method eases controlling over the credits and customers.

-The policy of lending loans in instalments and recovering the loans by monthly instalments has been generally regulating the cash flow and liquidity needs of PBs and strengthening the loans security.

-Lending against invoices puts an obstacle to irrational behaves by preventing enterprises from using credits and making debts more than their needs.

-On the other hand, with the help of a kind of crediting method in PB.s texture called "leasing" provides enterprises credited compatible with their cash flow and on the other hand financing is made compatible with PB.s' crediting techniques. In another words, this method provides investments to be financed by long-term financing.

-These methods improve the asset quality by means of increasing the security of the credits.

-Because participation banks have based their processes on invoices and formal documents as for their principles, PBs have been helping government in struggling against informal economy.

In conclusion **PARTICIPATION BANKING**;

is not only a banking business based on an "interest-free" feature, but also a type of banking which can be formulated by "less risk in liabilities, but higher quality in assets, based on high level of credit securities".