

Comparing Financial Performances of Conventional and Participation Banks: Case of Turkey (2005 – 2015)

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Abstract 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 work the usage of financial technique analysis methods such as ratios analysis as well as trend analysis through tables and graphs thanks to the interactive monthly bulletin data (2005 – 2015) collected from BDDK² and TKBB³. 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, Growth

1. 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. 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. The fastest 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 reports).

Turkey since 1983 is among the countries which have included Islamic banking to 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 legislations. The legislation of 2005 paved the way for a real growth of the sector and start competing with its counterpart (Conventional Banks: CBs). 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%, 4% share of countries in Islamic banking asset⁴, 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 2025⁵.

1.1. Understanding the Meaning of CBs and PBs

Conventional banks (CBs) are financial institutions that provide services, such as accepting deposits, giving business loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, and vaults. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees⁶. However, PBs are the institutions that operate in the financial sector, finance the real economy and provide banking services.

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Participation banks put the funds that they collect from savers to good use in projects within the scope of the principles of interest-free finance (making funds available for consumers and enterprises) and share with savers profit or loss generated⁷ by the operations.

One key difference is that CBs earn their money by charging interest and fees for services, whereas Islamic banks earn their money by profit and loss sharing, trading, leasing, charging fees for services rendered, and using other

sharia contracts of exchange. Moreover, most participation Banks 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.

CBs and PBs as well as development and investment banks are active in the Turkish banking system. The following table shows the banking sector's total personnel, branches, assets, credit.

Table 1. Turkish Banking Sector Status (December 2015)

	BANKS	BRANCHES	PERSONNEL	ACTIF		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	94,0	1.339.149	90,2
PART. BANKS	5	1.076	16.518	120.182	5,1	74.176	6,0	72.037	4,9
DEV. and INV. BANKS	13	40	5.366	106.648	4,5	0	0,0	73.773	5,0
TOTAL	50	12.185	216.722	2.357.430	100,0	1.245.427	100,0	1.484.959	100,0

Source: TKBB, General Report Presentation (December 2015)

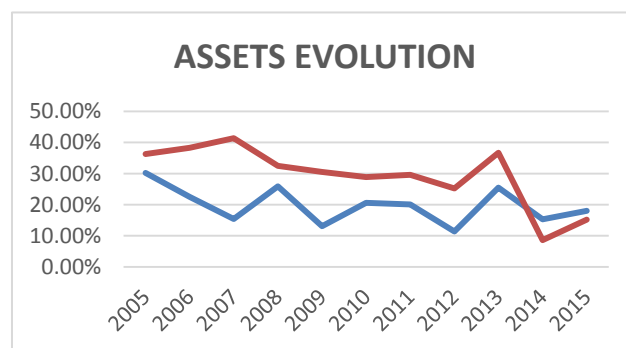
In December 2015 the Turkish banking system operates with 50 banks, 12185 branches and 216722 employees. 32 CBs with 194838 employees however there are 5 PBs 1076 branches and 16518 employees.⁸ The asset size of the Turkish banking system reached TL 2,357,430 Million, total deposits: TL 1,245,427 Million, and total loans: TL 1,484.959 Million TL. CBs with 90.4% share in asset size, 94% in deposit size, and 90.2% in loan size while PBs 5.1% in asset size, 6% in deposit size and 4.9% in credit size.

2. Assets

Table 2. Assets Evolution

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%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 1. Assets Evolution

The growth of asset size of conventional and participation banks over 10 years is shown in Table 2 and the graph1. PBs achieved faster growth than the CBs in the past years but couldn't catch up after 2014. While the CBs reached TL 2.130.601 Million asset sizes in 2015, the PBks reached 120.183 Million TL.

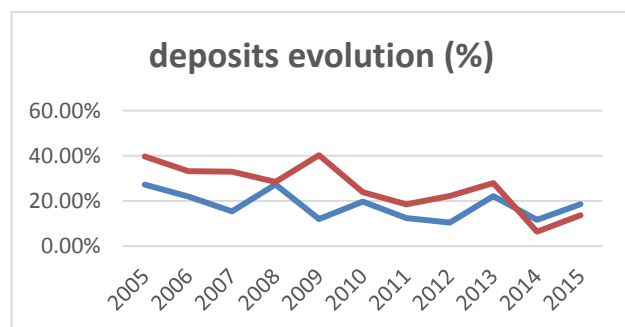
3. Deposit

The growth of deposits in Conventional and participation banks from 2005 to 2015 is shown in Table 3 and Graph 2. 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 deposit banks reached 1.171.251 Million TL in deposit in 2015, the participation banks reached 74.176 Million TL.

Table 3. Deposit evolution

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%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data

**Graph 2.** Deposit evolution

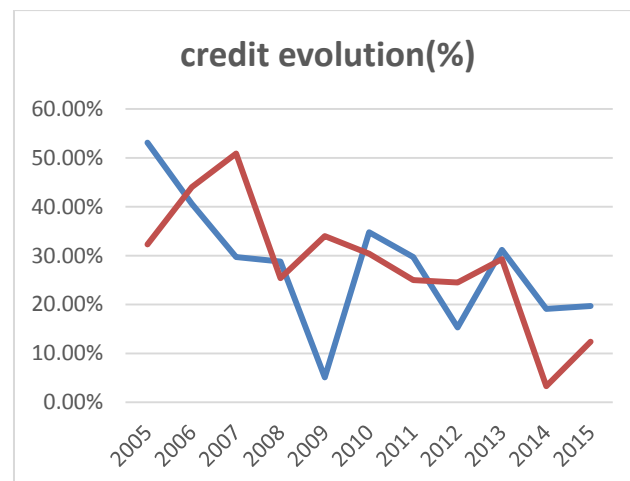
4. Credit

Table 4. Credit evolution

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%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data

The growth of credit size of conventional and participation banks for 10 years is shown in Table 4 and Graph 3, and it is seen that CBs and PBs in the past years have some up and down in the size of credits allowed. In 2015, while the CBs reached size of 1.339.149 Million TL, the PBs reached 72.038 Million TL.

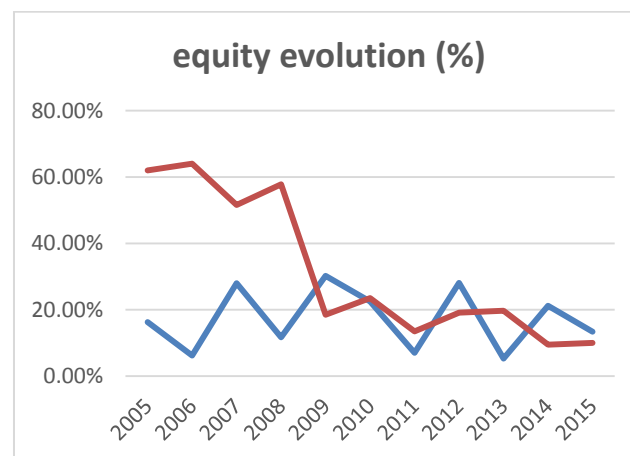
**Graph 3.** Credit evolution

5. Equity

Table 5. Equity Evolution

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%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data

**Graph 4.** Equity evolution

The evolution of equities size of Conventional and participation banks from 2005 to 2015 is shown in Table 5

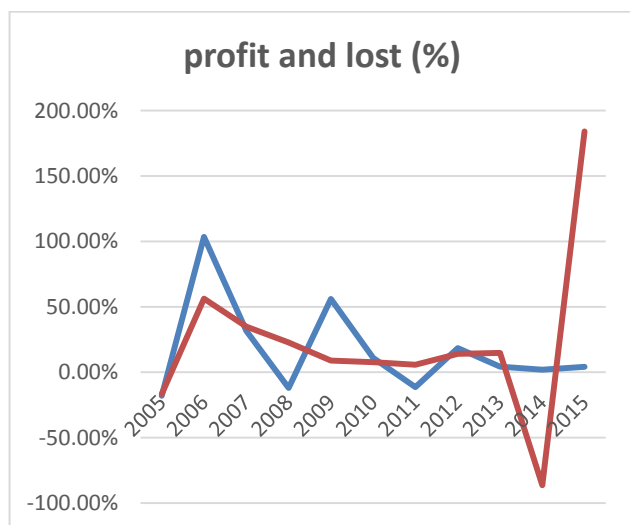
and Graph 4. PBs equities have been higher than the CBs equities until 2008, they couldn't catch up with the increase trend after 2008. While the CBs reached 228,144 Million TL in equity size in 2015, PBs have reached 10.645 Million TL.

6. Profit and Lost

Table 6. Profit and lost evolution

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%

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 5. Profit and lost evolution

The growth in the profit and loss of conventional and participation banks from 2005 - 2015 is shown in Table 6 and Graph5. 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 23.889 Million TL in 2015, the participation banks have reached 409 Million TL.

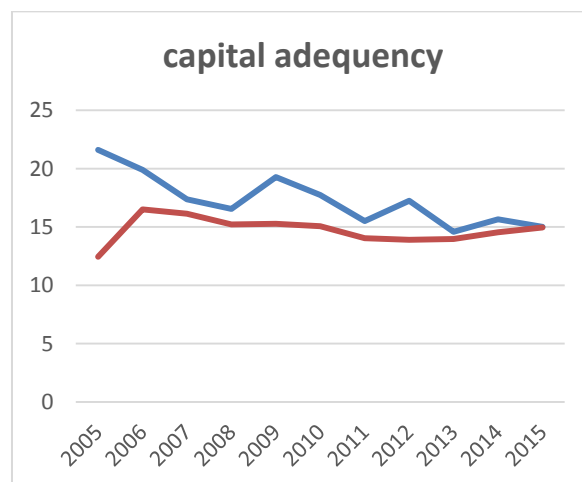
7. Ratios

7.1. Capital Adequacy Ratio

Table 7. Capital Adequacy Ratio

Year	CONV. BANKS	PART.BANKS
2005	21,6	12,5
2006	19,9	16,5
2007	17,4	16,1
2008	16,5	15,2
2009	19,3	15,3
2010	17,7	15,1
2011	15,5	14,0
2012	17,2	13,9
2013	14,6	14,0
2014	15,7	14,6
2015	15,0	15,0

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 6. Capital Adequacy Ratio

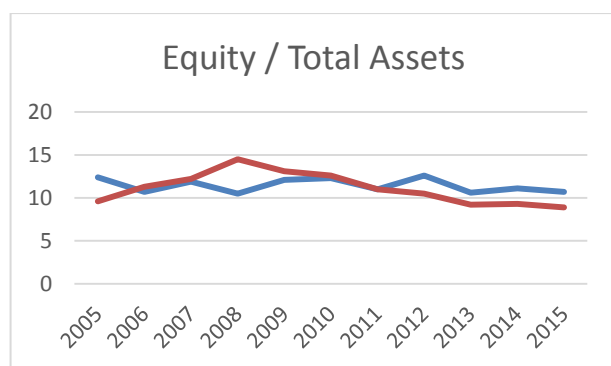
The capital adequacy evolution of conventional and participation banks from 2005 to 2015 is shown in Table 7 and Graph 6. It is seen that CBs have been above PBs until 2015 where they became quite equal.

7.2. Equity / Total Assets

Table 8. Equity / Total Assets

Year	CONV. BANKS %	PART. BANKS %
2005	12,4	9,6
2006	10,7	11,3
2007	11,9	12,2
2008	10,5	14,5
2009	12,1	13,1
2010	12,3	12,6
2011	11,0	11,0
2012	12,6	10,5
2013	10,6	9,2
2014	11,1	9,3
2015	10,7	8,9

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 7. Equity / Total Assets

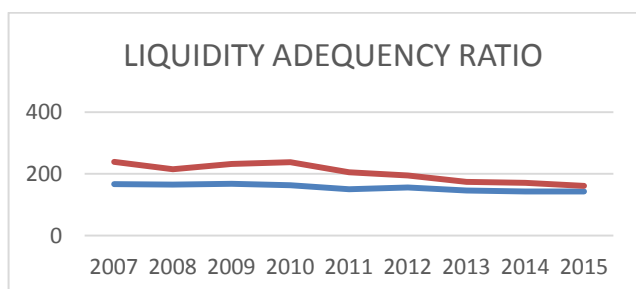
The capital adequacy Equity / Total Assets evolution of Conventional and participation banks, from 2005 to 2015 is shown in Table 8 and Graph7. And although the rates of PBs are above the rate of CBs until 2010, after 2011 PBs rates are below the rates of CBs. This shows that PBs have become riskier than the CBs.

7.3. Liquidity

Table 9. Liquidity Adequacy Ratio

Year	CONV. BANKS %	PART. BANKS %
2007	167	239
2008	165	215
2009	168	232
2010	163	238
2011	150	205
2012	156	195
2013	146	174
2014	143	171
2015	143	161

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 8. Liquidity Adequacy Ratio

The liquidity status of conventional and participation banks from 2007 up to 2015 is shown in Table 9 and Graph8, and the ratio CBs has been below the ratio of PBs.

7.4. Liquid Assets / Total Assets Ratio

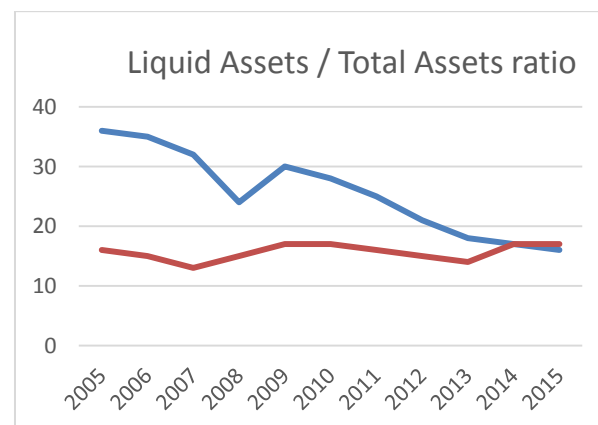
The ratio of Liquid Assets / Total Assets of Conventional and participation banks from 2005 to 2015 is shown in Table 10 and Graph 9. Although the CBs have been on a decreasing trend since 2005, they have been more liquid than PBs but by

2014, they appear to be less liquid than the participation banks and the increase in the liquidity is due to the influence of sukuk

Table 10. Liquid Assets / Total Assets ratio

Year	CONV. BANKS %	PART. BANKS %
2005	36	16
2006	35	15
2007	32	13
2008	24	15
2009	30	17
2010	28	17
2011	25	16
2012	21	15
2013	18	14
2014	17	17
2015	16	17

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



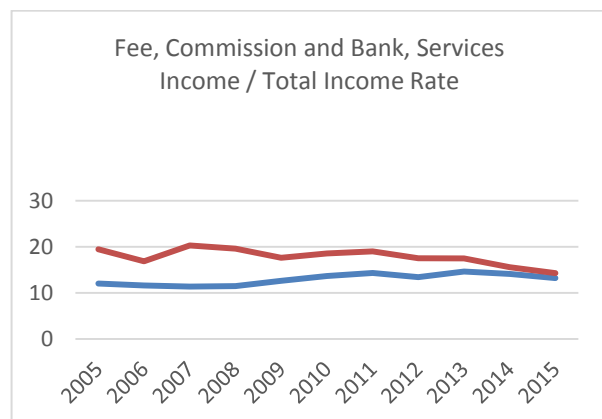
Graph 9. Liquid Assets / Total Assets ratio

7.5. Fee, Commission and Bank, Services Income / Total Income Rate

Table 11. Fee, Commission and Bank, Services Income / Total Income Rate

Year	CONV. BANKS %	PART. BANKS %
2005	12,02	19,45
2006	11,61	16,87
2007	11,37	20,28
2008	11,49	19,60
2009	12,62	17,62
2010	13,67	18,56
2011	14,33	18,99
2012	13,42	17,51
2013	14,63	17,48
2014	14,12	15,56
2015	13,20	14,30

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



Graph 10. Fee, Commission and Bank, Services Income / Total Income Rate

The income, fees and commission / total income growth of conventional and participation banks, from 2005 to 2015 shown in Table 11 and Graph 10. The rate in PBs is higher than CBs.

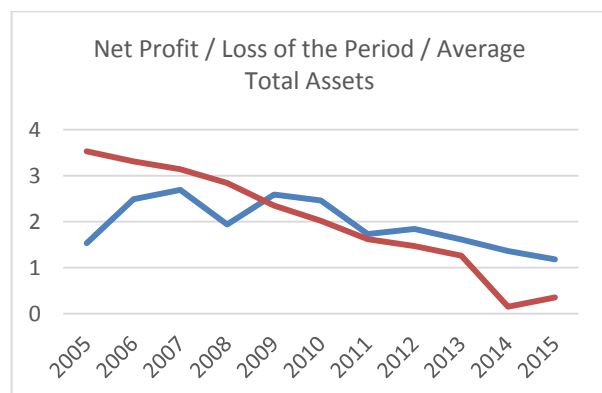
It is very important for the bankers to increase the non-interest income and reduce the operational expenses in the environment where the inflation rate falls. For this reason, it is important for the banks to reduce the operating expenses as well as to increase the non-interest income.

7.6. Net Profit / Loss of the Period / Average Total Assets

Table 12. Net Profit / Loss of the Period / Average Total Assets

Year	CONV. BANKS %	PART. BANKS %
2005	1,53	3,53
2006	2,49	3,31
2007	2,69	3,14
2008	1,94	2,84
2009	2,59	2,35
2010	2,46	2,02
2011	1,73	1,62
2012	1,84	1,47
2013	1,61	1,26
2014	1,36	0,15
2015	1,18	0,35

Source: BRSA Turkish Banking System Interactive Monthly Bulletin Data



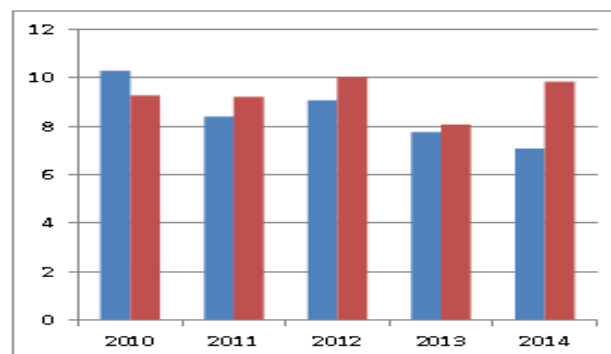
Graph 11. Net Profit / Loss of the Period / Average Total Assets

The profitability ratio of deposits and participation banks, from 2005 to 2015 is shown in Table 12 and Graph 11 and it is observed that the interest rates in the PBs are in a constant downward trend and especially in 2014, while CBs have been experiencing some up and downs.

8. Interest Rate / Dividend

Conventional banks interests.

Participation banks dividends



Source: TKBB, General Report Presentation

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 interest⁹.

9. Conclusions

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 Conventional Banks with the highest rate of financial assets (90.6%) perform more than Participation banks 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 improve the sector's financial performances and make Turkey a hub of Islamic Banking.

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2 BDDK: Bankacılık Düzenleme ve Denetleme Kurumu: (BRSA: Banking Regulation and Supervision Agency)

3 TKBB: Türkiye katılım Bankaları Birliği (Participation Banks Association of Turkey)

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