

# FAITH FINANCE AND THE FUTURE: THE UNFOLDING STORY OF PARTICIPATION BANKING IN TÜRKİYE

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## ABSTRACT

Participation banking is a banking transaction that doesn't generate profit or loss, provides economic financing for commercial transactions, financing for production activities, shares its profit and loss with the customer, and conducts all banking transactions except interest. Islamic Finance is a system where economic activities are carried out in accordance with Sharia law (Islamic law) and businesses and individuals collect capital in accordance with Islamic rules. *Riba*, *gharar*, and gambling are prohibited in this financial system. Obtaining income from illegal sales of pornography, lethal weapons, alcohol, and pork, which are not approved by Sharia law, is legal. Ethical, social responsibility work and transactions that will provide social benefit are carried out in accordance with Sharia law. The prohibition of interest in Islamic belief has led to the establishment of interest-free banks. Participation banks, which evaluate the funds they receive from entrepreneurs in investment transactions, share their equity capital, profit and loss with their customers. The purpose of this research is to conduct research on the emergence of the idea of participation banking in Türkiye and participation banks operating in Türkiye. The concept of banking, various banking, the emergence of participation banking and participation banks operating in Türkiye will be discussed in the research.

**Keywords:** Participation Banking, Interest Free Banking, Faith Finance, Sharia Law, Entrepreneurship

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## Introduction

Investments are made through trade and assets to obtain wealth. Investments that will provide social benefit to society should be made. Activities deemed haram in the Quran are avoided. Sharia-accepted financing methods such as *Murabaha* (Cost plus sales), *Musharakah* (Venture Partnership), *Ijara* (Lease Agreement), *Mudaraba* (Partnership) and *Sukuk* (Bonds) are used to increase profit share. *Murabaha*, the bank buys a product and sells it to the customer in installments at a profit. *Musharakah*, Two or three parties contribute capital and participate in management. profits and losses are shared before the contract. *Ijarah* (the right to use an object), a bank can use it to rent a house or vehicle to a customer. After a year or a few months of customer use, the ownership remains with the bank. *Mudaraba*, a partnership agreement is made between an entrepreneur and a bank in advance. profits and losses are shared. The entrepreneur can use his expertise as partnership capital while the customer operates a place. *Sukuk*, is established to pay profits in accordance with Sharia instead of investing in activities that are not permitted by Sharia (interest component and gambling, pork, alcohol and other prohibited activities). For a Muslim or Christian, it is necessary to live according to the rules of religion and to live according to the demands of a modern economy in financial transactions according to the rules of religion. In Islamic finance, economic activities should be carried out according to the legislation and the holy book Quran. According to the Quran, *Gharar* (uncertainty), *Maysir* (Gambling) and taking and receiving fixed interest (*Riba*) for loans and investments are strictly prohibited in Islam. These components in financial transactions lead to excessive debt creation, negative growth, speculation and a huge gap between the rich and the poor. Islamic finance protects society from the effects of instability, inflation, unemployment through the prohibition of *riba*, *gharar* and *Maysir* and promotes social justice and economic efficiency. Participation Banking or Islamic Banking (IB) has the potential to create positive effects on the economy thanks to its management principles. An extension of this potential is the positive impact of employment on Islamic banks. Islamic banks (IBs) play an important role in the economic structures in which they operate due to their working principles. It is generally argued that Islamic banks can provide more positive effects on the financial system than conventional banks as intermediary financial institutions. They also have the potential to accelerate economic development. There are many studies in the literature that suggest that these institutions make positive contributions from different perspectives. Participation banks avoid money trading as a financial intermediary due to their governance principles. As an extension of this logic, they also tend to avoid interest-based activities. Islamic banking uses financial intermediaries who prefer to provide loans because they do not allocate interest-based assets in their assets. Since the interest-free stock market is less developed than the interest-based stock market, this provides better financing for the private sector in economies where bank loans are the main financing tool.

Since money is not a commodity but a medium of exchange, it is forbidden to sell or buy Islam. The prohibition of money trading means that the activity of lending is more integrated with goods and services. This ultimately leads to a link between financial flows and

productivity. Therefore, better integration of credit with goods and services means that credit will have a real direct impact. In this study, research has been conducted on the emergence of the idea of participation banking and participation banks operating in Türkiye. In this context, in the first part of the study, the concept of banking, various banking, the emergence of participation banking will be examined, and in the second part, participation banks operating in Türkiye will be examined.

## Literature Review

### Turkish Banking System

The concept of bank is a word derived from the Italian word Banco. The word Banco, which was also referred to as Banca in later periods, was first used in the sense of desk, counter and table. The term banco emerged with the counters set up in the markets to conduct banking transactions by the Lombardy Jews (Yazici, 2015), who are known to have initiated the practice of banking. Today, it is possible to say that this term is used in branches to conduct current transactions.

Various economic institutions that accept deposits and use these deposits in the best possible way in various credit transactions or whose main activity is to regularly receive or grant credit are referred to as banks (Doğan, 2015). According to another definition, banks are institutions that deal with transactions such as ensuring stable money and capital circulation, creating financial opportunities, and offering monetary investment preferences (Babuşçu and Hazar, 2017). The definition of a bank is not included in the Banking Law, and banks are classified according to their activities; Deposit banks, Participation banks. They are classified as development and investment banks. These classifications will be discussed in detail in the following topics.

### Banking Classification in Türkiye

There are four different types of banks operating in Türkiye today. These banks are deposit banks, investment banks, development banks, and participation banks.

**Table 1. Bank Groups in Türkiye**

Bank/Group Name	Bank Number Of	Domestic Branch*	Abroad Branch*
The Banking System of Turkey	47	10461	68
Deposit Banks	34	10411	68
Deposit Banks with Public Capital	3	3682	30
Ziraat Bank of the Republic of Turkey A.Sh.	-	1759	21
Halk Bank of Turkey A.Sh.	-	969	6
Türkiye Vakıflar Bankası T.A.O.	-	954	3
Private Equity Deposit Banks	9	3989	28
Adabank A.Sh.	-	1	0
Akbank T.A.Sh.	-	800	1
Anadolu Bank A.Sh.	-	112	0
Fibabanka A.Sh.	-	83	0
Şekerbank T.A.Sh.	-	273	0
Turkish Bank A.Sh.	-	13	0
Turkish Economic Bank A.Sh.	-	500	4
Türkiye İş Bankası A.Sh.	-	1342	22
Yapı ve Kredi Bank A.Sh.	-	865	1
Banks Transferred to the Savings Deposit Insurance Fund	1	1	0
United Fund Bank A.Sh.	-	1	0
Foreign-Owned Banks	21	2739	10
Banks with Foreign Capital Established in Turkey	16	2732	10
Alternatifbank A.Sh.	-	53	0
Arab Turkish Bank A.Sh.	-	7	0
Bank of China Turkey A.Sh.	-	0	0
Burgan Bank A.Sh.	-	43	0
Citibank A.Sh.	-	3	0
Denizbank A.Sh.	-	707	1
Deutsche Bank A.Sh.	-	1	0
HSBC Bank A.Sh.	-	82	0
ICBC Turkey Bank A.Sh.	-	44	0
ING Bank A.Sh.	-	256	0
MUFG Bank Turkey A.Sh.	-	1	0
Odea Bank A.Sh.	-	47	0
QNB Finansbank A.Sh.	-	541	1
Rabobank A.Sh.	-	1	0
Turkland Bank A.Sh.	-	24	0
Turkish Garanti Bank A.Sh.	-	922	8

(Source: Turkish Bank Association, <https://www.tbb.org.tr/en>)

**Table 2. Bank Operating in Türkiye**

Bank/Group Name	Bank Number Of	Domestic Branch*	Abroad Branch*
Banks with Foreign Capital that have Opened Branches in Turkey	5	7	0
Bank Mellat	-	3	0
Habib Bank Limited	-	1	0
Intesa Sanpaolo S.p.A.	-	1	0
JPMorgan Chase Bank N.A.	-	1	0
Société Générale (S.A. Tu)	-	1	0
Development and Investment Banks	13	50	0
Development and Investment Banks with Public Capital	3	31	0
Provincial Bank A.Sh.	-	19	0
Turkish Eximbank	-	11	0
Development Bank of Turkey A.Sh.	-	1	0
Private Equity Development and Investment Banks	6	15	0
Active Investment Bank A.Sh.	-	8	0
Diler Investment Bank A.Sh.	-	1	0
GSD Investment Bank A.Sh.	-	1	0
Istanbul Clearing and Custody Bank A.Sh.	-	1	0
Nurol Investment Bank A.Sh.	-	1	0
Industrial Development Bank of Turkey A.Sh.	-	3	0
Development and Investment Banks with Foreign Capital	4	4	0
Bankpositive Credit and Development Bank A.Sh.	-	1	0
Merrill Lynch Investment Bank A.Sh.	-	1	0
Pasha Investment Bank A.Sh.	-	1	0
Standard Chartered Investment Bank Türk A.Sh.	-	1	0

(Source: Turkish Bank Association, <https://www.tbb.org.tr/en>)

Commercial banks to the Turkish Banking Association are shown in detail in Table 1. According to the table, commercial banks are classified as private capital, public capital, foreign capital, and banks transferred to the savings deposit insurance fund. When the statistics are examined, there are 52 banks. 34 of them are deposit banks, 13 of them are development and investment banks, and 5 of them continue their operations as participation banks. There are 3 public and 9 private deposit banks. Apart from these, there are 21 foreign capital banks and 1 bank transferred by the TMSF.

### **Deposit Banks**

Deposit banks, according to the Banking Law No. 5411: It is defined as “organizations that operate primarily by accepting deposits and providing loans in their own name and account, and branches in Türkiye of such organizations established abroad.” Deposit banks are financial institutions established for the purpose of providing credit support to customers in need of funds by collecting funds on a fixed or fixed-term basis in order to contribute the savings of deposit banks to the economy. There are two types: state-owned deposit banks and private-owned deposit banks. State-owned deposit banks;

- 1) Ziraat Bank
- 2) Halk Bank
- 3) Vakifbank

### **Investment Banks**

Investment banks are banks whose funds come from sources other than deposits. They generally derive their income from interest, transaction fees and commissions. In this context, investment banks provide services such as financial leasing transactions, project financing, intermediation in corporate portfolio management, consulting in mergers and acquisitions and providing investment consultancy (CMB, 2018).

### **Development Banks**

Development banks are generally defined as organizations that undertake to close the investment capital gap in developing countries and, in addition, to provide technical assistance to ensure that enterprises are directed towards basic industry branches, to accelerate industrialization and therefore development processes (Penniless, 2000).

Development banking generally refers to banks that encounter problems in financing activities implemented in the field of industrialization and continue their activities in the countries in question. It is also possible to say that development banks have played a major role in supporting local industry and development since the day they were established. Especially after 1980, with the change in oil prices, the situation in development banks has lost its effectiveness. Development banks, whose primary purpose is social, keep the profit-making legislation in the background. Another purpose of development banks is to express their ideas on issues related to economy and industry by following methods that will increase employment. For this reason, we can say the

following for development banks: by using long-term resources, they save local investors from the losses of short-term financial events (Ozturk, 2018).

### Participation Banks

According to Article 3 of the Banking Law, participation banks; “organizations that operate primarily by collecting funds and providing loans through special current and participation accounts, and branches in Türkiye of such organizations established abroad.”

Since the 1980s, with the liberalization process, a restructuring has occurred in the financial sector through deregulation. At this point, it is possible to state that institutions aiming to provide Islamic financial services and products started their activities in 1985 (Okumus, 2005).

## Discussion

### Participation Banking Applications

The basis of participation banking is Islamic financing. Islamic financing, which has been growing steadily worldwide since 2007, reached 2.3 million trillion dollars in 2016 and is expected to reach 3 trillion dollars by the end of 2020.

Developments that are built upon an idea with a certain accumulation of knowledge in the context of political and economic systems and matured on this basis continue intensively today. The subsystems, thoughts, concepts that belong to the systems in question and are connected to them are clarified through the right, wrong and truth that are being constructed (Tunç, 2010).

Islamic societies conscientiously reject the interest-based economic structure, which is the backbone of capitalist systems. As clearly stated in the Quran, people should not adopt interest throughout their economic lives. Similarly, systems that limit private property, according to communist systems, are not accepted by Muslims. It is stated that the basis of this situation is Western liberal ideas that contradict the creation of man (Chapra, 2002).



**Figure 1.** Islamic Finance, Distribution of Banking Assets and 2020 Expectations in Islamic Development Bank, <https://www.isdb.org/>

Islamic economic doctrines, since Islam does not legitimize interest, Islamic countries have shown negative approaches to interest-based banking systems, and in this context, it is possible to say that banking, which is an important part of economic life, has not been included in the financial system with underdeveloped savers. Participation banking was established within the framework of this understanding in Egypt, where it was born (Bayindir, 2005). Interest-free banking was first attempted in Pakistan in 1950. These banking activities, which constitute a type of credit given to poor landowners for the purpose of realizing agricultural improvements, are not original and do not have systematic and permanent characteristics (Personnel, 2018).

The first bank that started and continued its activities through the interest-free system was established in Egypt between 1964 and 1967 by A. Neccar, whose mother was Turkish. The main goal of the bank in question was to finance the industry operating in the textile sector (Özsoy, 1987).

**Table 3.** Customer Numbers and Deposit Amounts in Egypt's First Interest-Free Bank

Year	Deposit Customer Number Or	Active Growth %	Per Customer Average Deposit	Growth Rate %
1964	17.560,00	0	2,33	0
1965	30.404,00	73	6,29	170
1966	151.998,00	400	5,79	-1
1967	251.152,00	65	7,25	26

(Source: Central Bank of Egypt, <https://www.cbe.org.eg/en/>)

### Participation Banking in the World

The IDB, known as the Islamic Development Bank, determines whether development has occurred in the economy using three basic measures. These are; Per capita income is at the welfare level; Per capita income is rising to the welfare level; per capita income is at a level that is self-sufficient and has an increasing trend. The most important of the priority institutions in development can be expressed as development banks. The most basic elements of development banks are to increase the production power in the country where they are located and to provide a fund for financing development (Uçar, 1993). Considering the above-mentioned situation, on December 15, 1973, all Islamic countries took a decision in Jeddah to establish Islamic banks. In October 1975, IDB was established as the Islamic Development Bank. The main purpose of the bank in question is to provide social and economic assistance to countries (Uçar, 1993). It would be correct to state that participation banks are operating as another rising sector in many countries.



**Table 4.** History of Islamic Finance in the World

1950-1970 Today to the Countryside Targeted Bank, Pakistan (1950)	1971-1980 Naseer Social Bank, Egypt (1971)	1981-1990 Albaraka Group (1982)	1991-2000 Islamic of Brunei The Bank (1993)	Nowadays International Islamic Financial Market, Bahrain (2002)
Mit Ghmar Local Saving Bank, Egypt (1963)	Al-Amanah Islamic Aid The Bank, Philippines (1973)	Qatar Islamic The Bank, (1982)	Islamic Banks Decadal Money The Market (1994)	iFSB (Islam Financial Services Board), Malaysia (2002)
Lembaga Tabung Haji Bank, Malaysia (1963)	Islamic Development Bank, Jeddah (1975)	Islamic Bank, Malaysia Berhad(1983)	Financial Organizations Accounting and Control Organization (1994)	Liquidity Management The Center (2002)

(Source: Generated by Author)

### Participation Banking in Türkiye

The history of participation banking in Türkiye dates back to 1983. It is not possible to say that participation banking, which started to take its place in the financial sector in 1985 in line with the legal regulations made in this year, has come a long way despite more than 30 years having passed. It should be noted that participation banking, which continues its activities at a very fast pace in other Islamic countries, is not given the same level of attention in Türkiye (Babacan, 2018).

**Table 5.** History of Participation Banking in Türkiye (Between 1983-2005)

The State Private Finance Institutions the verdict		Kuwait Turkish founded		İhlas Finance founded		Private finance institutions Banks to the law added		
1983	1985	1989	1991	1995	1996	1999	2001	2005
	Albaraka Turkish and Faisal Finance founded		Anatolia Finance Founded				Albaraka Turkish and Faisal Finance Founded	

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

In Türkiye, the Participation Banks Association of Türkiye was established in 2006. The first sukuk and the first sukuk issuance circular were published in 2010. Ziraat Participation was established in 2015 and Vakif Participation in 2016 and continue their activities in the public participation banking sector (TKBB, 2018).



**Table 6.** History of Participation Banking in Türkiye (Between 2006-2018)

	Türkiye Finance National Commercial First Participation Bank(NCB) Of The Index		The First Interest-Free Retiring The company Founded		Bank Of Asia was to Its Activity terminated	
2006	2008	2010	2011	2015	2016	2018
		The First Sukuk Kuwait Türk London The Board Was founded				Albaraka Turk Kuwait Turk Ziraat Bank
Türkiye Participation Union was established		The Sukuk Communiqué published		Agricultural Participation founded		

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

### History and Development of Participation Banking in Türkiye

The activities of Albaraka Türk as Private Finance Institution are shown as the beginning of interest-free banking activities in Türkiye. The activities of Faysal Finance Institution can be shown as the second in 1985. The next bank is Kuveyt Türk Private Finance Institution, which started its activities in 1989. We can list the participation banks in Türkiye according to their establishment years as follows.

- 1) Albaraka Turk
- 2) Faisal Finance
- 3) Kuwait Turk
- 4) Anatolia Finance
- 5) Ihlas Finance
- 6) Türkiye Finance
- 7) Ziraat Participation
- 8) Vakif Participation

### Participation Banks Continuing Their Activities Today

Participation banks operating today;

- 1) Kuwait Turk
- 2) Albaraka Turk
- 3) Türkiye Finance

- 4) Ziraat Participation
- 5) Vakif Participation
- 6) Türkiye Real Estate Participation Bank
- 7) World Participation Bank
- 8) Hayat Finance Participation Bank
- 9) Tom Bank.

#### **Kuveyt Turk Participation Bank Inc.**

Kuveyt Turk Participation Bank Inc. is a participation bank that started its activities on January 01, 1989. The partnership structure of Kuveyt Turk Participation Bank Inc., which belongs to Kuwait Finance House, is as shown in the table below.

**Table 7.** Partnership Structure of Kuveyt Turk Participation Bank

Kuveyt Türk Participation Bank Partnership Structure		
Name Surname / Trade Name	Share Amounts (TL)	Share Ratios (%)
Kuwait Financial Institution	1.929.479.181	62,24
T.C. General Directorate of Foundations	580.297.180	18,72
Islamic Development Bank	279.000.000	9
Kuwait Social Security Public Establishment	279.000.000	9
Other Real and Legal Partners	32.223.639	1,04
<b>Total</b>	<b>3.100.000.000</b>	<b>100</b>

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

According to the table, it is possible to say that the General Directorate of Foundations of the Republic of Türkiye, which has the largest share after the Kuwait Finance House, has a very large say in the bank's activities. The bank has a total paid-in capital of 3,100,000,000 TL (Kuwait, 2018).

Kuveyt Türk Participation Bank should state that it has recovered by 25% since 2016 and increased its fund size by 39,857,400,000 TL. Accordingly, it is possible to say that the funds used are the largest fund in the sector with 37,923,358,000 TL. The bank's problem loans are net 47,183,000 TL, and there has been a 71% decrease in this ratio in the last 1 year. The bank's equity capital is 4,591,151,000 TL, and its net profit is 673,991,000 TL. In this respect, it should be stated that Kuveyt Türk Participation is the most profitable bank in the sector. In addition, the number of personnel has reached 5,749 people and the number of branches has reached 399, and it is growing (Kuwait, 2018).

#### **Albaraka Turk Participation Bank Inc.**

Albaraka Türk Katılım A.Ş., which was established in 1984 to continue its activities, is as shown in the table below.

**Table 8.** Albaraka Türk Participation Bank Inc. Partnership Structure

Albaraka Turkish Participation Bank Partnership Structure		
Partnership Structure	Share Amount (TL)	Percentage(%)
Foreign Partnership	592.846.912,78	65,87%
- Albaraka Banking Group	486.523.265,68	54,06%
- İslamic Development Bank	70.573.778,85	7,84%
- The Alharthy Family	31.106.364,35	3,46%
- Other	4.643.503,90	0,52%
Domestic Partners	80.975.748,96	9,00%
Open To The Public	226.177.338,26	25,13%
<b>Total</b>	<b>900.000.000</b>	<b>100</b>

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

The majority of the shares of Albaraka Türk Participation Bank Inc. belong to Albaraka Banking Group and the total amount of foreign partnership in the bank is 592,846,912.78 TL. It is known that 25.13% and 226,177,338.26 TL were offered to the public. The share of domestic partners is 80,975,748.96 TL and 9 percent. There is a total paid-in capital of 900,000,000 TL (Albaraka, 2017).

#### **Türkiye Finance Participation Bank Inc.**

Türkiye Finans Katılım Bankası A.Ş. entered the sector in 1985 under the name of Faysal Finans Kurumu and later changed its name to Family Finans and continued its activities. Anadolu Finans Kurumu started its activities in 1991. Later, in 2005, it took the name Türkiye Finans, which is still in use today, and continues its activities (TF, 2015).

**Table 9.** Türkiye Finance Participation Partnership Structure

Türkiye Finans Katılım Bankası Ortaklık Yapısı		
Adı Soyadı/Ticaret Unvanı	Pay Tutarları (Bin TL)	Pay Oranları (%)
NATIONAL COMMERCIAL BANK	1.176.369	66,27
GÖZDE GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş. (ÜLKER GRUBU)	205.405	11,57
(HACİ) MUSTAFA BOYDAK (1934)	41.173	2,32
BOYDAK HOLDİNG A.Ş.	39.213	2,21
BEKİR BOYDAK	33.269	1,87
MEMDUH BOYDAK	33.269	1,87
MUSTAFA BOYDAK (1963 SAMİ OĞLU)	33.250	1,87
YUSUF BOYDAK	31.309	1,76
ŞÜKRÜ BOYDAK	27.730	1,56
HACİ BOYDAK	26.678	1,5
<b>Toplam</b>	<b>1.775.000</b>	<b>100</b>

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

As can be seen from the table, the majority shares of the bank belong to the National Commercial Bank. Türkiye Finans Katılım Bankası A.Ş. reached a total fund of 22,030,496,000 TL in 2017 and the bank in question provided 26,071,453,000 TL in funds. The loans to be liquidated decreased by 23% in general and there are 412,000,000 TL problematic loans. Total assets reached 39,080,897,000 TL and equity capital reached 4,060,598,000 TL

**Table 10.** Main Financial Figures of Türkiye Finance Participation Bank

financial headlines		2017 / Q4	2017 Q4-2016
TOPLANAN FONLAR	TP	11.164.157	-6%
	YP	10.866.339	18%
	TOPLAM	22.030.496	5%
FUNDS DISBURSED*		26.071.453	-2%
RECEIVABLES TO BE LIQUIDATED (NET)		412.000	-23%
RECEIVABLES TO BE LIQUIDATED (GROSS) / KULLANDIRILAN FONLAR		5,4%	-
TOTAL ACTIVE		39.080.897	1%
SELF-EXISTENCE		4.060.598	11%
NET KÂR		375.360	27%
NUMBER OF PERSONNEL		3.767	-6%
NUMBER OF BRANCHES		289	1%

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

### Ziraat Participation Bank and Vakıf Participation Bank Inc.

May 2015 and is known as the first public participation bank in Türkiye. The second public participation bank in Türkiye is Vakıf Participation. The establishment of Vakıf Participation coincides with 2016.

**Table 11.** Ziraat Participation Bank Inc. Partnership Structure and Share Ratios

The Shareholder	31.12.2017		31.12.2016	
	Paid Capital	%	Paid Capital	%
T.C. Agricultural Bank A.Sh.	1.250.000,00	99,9999996	747.000,00	99,9999996
Ziraat Insurance A.Sh.	-	0,0000001	-	0,0000001
Agriculture Life and Retirement A.Sh.	-	0,0000001	-	0,0000001
Agricultural Technology A.Sh.	-	0,0000001	-	0,0000001
Ziraat Investment Securities Values A .Sh.	-	0,0000001	-	0,0000001
total	1.250.000,00	100	747.000,00	100

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

All shares of Ziraat Bankası Katılım A.Ş. belong to the Undersecretariat of Treasury of the Prime Ministry of the Republic of Türkiye. In addition, according to the decree numbered 2017/9756 of the Council of Ministers dated January 24, 2017, they were transferred to the Türkiye Wealth Fund. Ziraat Participation Bank collected a fund of 10,024,595,000 TL, achieving a 78% increase compared to 2016. Ziraat Participation's financial data is generally as shown in the table below.

**Table 12.** Ziraat Participation Bank's Financial Figures

Ziraat Participation Bank A.Sh.			
Financial headlines		2017 / Q4	2017 Q4-2016
FUNDS RAISED	TP	6.345.946	68%
	YP	3.678.649	98%
	total	10.024.595	78%
FUNDS DISBURSED*		11.730.935	103%
RECEIVABLES TO BE LIQUIDATED (NET)		16.753	152%
RECEIVABLES TO BE LIQUIDATED (GROSS) / FUNDS DISBURSED		0,3%	-
TOTAL ACTIVE		14.350.143	80%
SELF-EXISTENCE		1.403.681	84%
NET KÂR		158.902	418%
NUMBER OF PERSONNEL		892	32%
NUMBER OF BRANCHES		63	34%

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

Vakıfbank was established with the aim of reviving foundation works even more by prioritizing the foundation culture that combines the culture of sharing and the great power of the public and brings a new dimension to participation banking. The partnership structure and share ratios of the bank, which was established on February 17, 2016, are generally as follows (Oran, 2018).

**Table 13. Vakıfbank Participation Bank's Partnership Structure**

The Shareholder	Share Amount (TL)	Share Ratio (%)
T.C. Prime Ministry General Directorate of Foundations	895.950.000	99.00%
Beyazid Khan-1 Thani (II. The Foundation (Beyazit	2.262.500	%0.25
Mahmud Khan-1 Before Bin Mustafa Khan (I. Vakfi (Mahmut	2.262.500	%0.25
Mahmud Khan-1 Thani Bin Abdulhamid Khan-1 Ago (II. Vakfi (Mahmut	2.262.500	%0.25
Murad Pasha Bin Abdus-Salam (Murat Pasha) Foundation	2.262.500	%0.25

(Source: Participation Banks Association of Türkiye (TKBB), <https://tkbb.org.tr/>)

### Basic Principles and Services of Participation Banks

There is a system that has been accepted from the past to the present. Some procedures in this system have led to the formation of interest-free banking. Participation banks, which have more ethical principles, have taken into account equal distribution of income and avoidance of undesirable situations. Unlike conventional banks, participation banks offer interest-free banking services and even offer the opportunity to analyze how the profit-loss relationship will proceed. There are privileges granted by participation banks. We see that they are partly commercial banks and partly interest-free finance companies. If we examine these characteristics (Association of Private Finance Institutions, 2003).

### Privileges Granted by Participation Banks

Unlike conventional banks, participation banks also offer interest-free services. In addition, there are some privileges offered by participation banks. We can list them as follows;

- 1) Purchase and sale of all securities, provided that there is no interest,
- 2) *Musharakah* and *Mudaraba*,
- 3) Purchase and sale of real estate,
- 4) Evaluation and collection of all securities in return for commission,
- 5) Interest-free loans and lending,
- 6) Letters of credit and guarantees,
- 7) Financial leases,
- 8) Providing loans and credits without interest,
- 9) Buying and selling foreign currency in cash,

- 10) Letters of credit and guarantees,
- 11) Provides economic, technical and marketing consultancy for feasibility studies in projects.

### **Reasons for the Emergence of Participation Banks**

Developments in economic markets have led to the emergence of new instruments. The emergence of interest-free banking means the emergence of participation banks. Developments in financial markets in developed countries have also affected other developing countries. The reasons for the emergence of participation banks are divided into social, economic and religious.

#### **Economic Reason**

When we look at the economic reasons for the establishment of participation banks, there was a lot of money that Islamic countries earned from oil in the 1970s.

During that period, OPEC countries increased oil prices and their foreign trade savings shifted to Western countries. Thus, Islamic countries could not develop and their development did not benefit. When we look at the plans for the next century, the most important issue that countries focus on is technological developments. However, they focus on mechanisms that will allow them to control financial resources. In other words, there has been an increase in the combination of the service sector and the production sector in addition to banking. Many Islamic countries and most Middle Eastern countries have attracted capital and made significant progress by opening interest-free banking departments. Examples of these are; ABN Amro Bank, Rabobank, HSBC Holding, Citi Group, Credit Suisse Corp. However, the New York Stock Exchange has prepared a system that is compatible with Islamic thought and has enabled those who have reservations about this issue to choose the system (Association of Private Finance Institutions, 2003).

#### **Religious Reason**

Interest has a no place in Islam, which has led to the establishment of interest-free banks. Interest is prohibited not only in Islam but also in many religions. Some of these religions are Judaism and Christianity. Jews state that the prohibition of interest is only valid among themselves. They apply interest to those who are not of their religion and state that there is no harm in this. Their holy book absolutely forbids interest. Criteria are used to distinguish the difference between interest and profit.

We can list them as follows;

- a) In a trade, while the merchant makes a one-time profit from the product, interest can be received repeatedly on the same debt if it is not paid.
- b) In interest-based transactions, people definitely make a profit without investing time and labor. In trade, people try to earn a return by spending their time and resources.

- c) In an interest-bearing transaction, the party applying interest makes a profit that will benefit him, while the person accepting and receiving the interest only gains the right to postpone it, and it is doubtful that he will make a profit in the trade he makes. In trade, the interests of the seller and the buyer are equal. The situation is different in interest. The fact that interest is forbidden in Islam has led to the establishment of participation banks.

### **Social Reason**

Interest-free banks are a useful institution in eliminating the situation where customers increase their income with interest. This situation has occurred due to the effect of its own studies in interest-free banking. Since labor and capital owners share in profit and loss in proportion to their existing capital in developing countries, the system that benefits a certain group in the interest-based system has disappeared. The possibility of hostility that may arise in interest-based banks is less in interest-free banks. We do not encounter the destructive effects of interest in participation banks. It is also a big step in eliminating the great difference between the rich and the poor.

### **Basis of Participation Banking System**

Acting within the framework of certain rules set by the religion of Islam carries the goals of being an ideal social order and an ideal person. The religion of Islam wants to create this order with a reward and punishment system. There are some important issues that are the results of human emotions and human life. These are essential principles for the continuity of the order of life. For example; shelter, nutrition, security, economic freedom. Production and industry are needed to meet these needs (Köknel and Bayındır, 2007). The need for money, namely the banking system, has become a benefit of life. The element that uses production functions, labor in its place and turns it into a productive state is capital. Capital is also defined as money as a unit of value. However, interest-free banking has two main points. The first of these is that money is not a commodity, but a financing unit and a means of exchange. The second is that the capital owner and the laborer share both profit and loss (Akgüç, 1989). The religious, social, economic and political foundations of participation banking or non-interest-based banking system are explained below (Akevler, 2015).

### **Islamic Approach**

Interest is forbidden in Islam. For this reason, believers in Islam do not want to do business with interest. Although it is implemented in many countries of the world, especially in Islamic countries, its jurisprudential aspect has not yet been fully clarified. In Türkiye in particular, it is particularly desired to clarify this issue in line with belief. The transactions made by interest-free banks are viewed with suspicion due to the fact that the jurisprudential aspect of the issue has not been adequately addressed and due to the suspicions among the public (Affane, 2007).

### **Interest and Negative Effects of Interest**

Interest is originally a word of Arabic origin, and it passed into Turkish from the



word *fazeyen* (Yazici, 1999). Interest is the excess of money given to a person in return for a debt, which is taken back after a certain period of time. Interest has not been found appropriate by Aristotle, who stated that it is not the equivalent of labor since ancient times. It is stated that interest is not appropriate in Christianity, especially in Islam (Yücel, 1979).

It is also necessary to mention *riba*, which is confused with interest in Islam. *Riba* means unjust gain, a person having more rights than others (Garaudy, 2015). *Riba* also causes the disruption of order in society (Nebi, 1976). The aim of participation banks, unlike other banks, is not to do business with interest and to run the banking system in accordance with the religion of Islam. As stated in the Quran, "Allah destroys interest and blesses charity" (Baqarah/276), these banks, which were established with an economic system that is interest-free and where partnership and ownership are spread to the lowest level, the base, have deviated from their purpose over the years and have begun to pursue profit (Terzi, 2013). Aristotle, in his book *Politics*, expresses his opposition to interest by saying that money was created as a means of exchange, and interest is the unjust multiplication of money. He said that it is the most unconventional way of earning money. Businessmen dealing with trade take a risk when they lend money, but the person who gives the money does not want to lose his receivables and wants to guarantee them. While trying to make the capital and credit productive, he can make a profit or lose money. It is very difficult for states to pay the money they receive from other states with interest in line with their needs. The constant deficit of the budget due to high interest payments creates social injustice. The state naturally resorts to collecting taxes from the people within the country. Ibn Khaldun says, "The duty of the state is to lighten the taxes that do not yield benefits when imposed heavily. Because the moderation and moderateness of taxes is the greatest incentive for economic activities." These situations can cause civil wars such as Korea and Vietnam. All kinds of interest are unacceptable in Islam. It has considered lending money as normal and forgiving it if the debtor cannot pay his debt. Based on this, the feeling of mercy and tolerance has been emphasized (Yücel, 1979). Money is not the goal but the main element, the means. Wealth, on the other hand, is not there to be accumulated but to be spent (Ebussuud, 1980).

### **Verses Related to Interest**

According to Islam, it is forbidden to do business with interest. It is stated in the Sunnah of the Prophet and the Holy Quran that you should not deal with interest (Aktepe, 2012).

Especially the verses revealed about interest have caused the idea of interest-free banking to emerge. Just as there are verses about usurpation of others' rights, there are also verses revealed about interest. The order in which the verses below were revealed has been followed by the same method and a definitive ruling has been reached.

It is stated in the Quran that giving and taking interest is not right in the 39th verse

of the Surah Ar-Rum: "Whatever interest you give to increase people's wealth will not increase in the sight of Allah. And as for the zakat that you give seeking Allah's pleasure, those who give it are the ones who will have it increased manifold." (Karaman et. Al., 2007).

As the second step regarding the prohibition of interest, in the 160th verse of Surah An-Nisa, it is stated that "Because of the Jews' oppression and turning away from the path of Allah, We have forbidden them many good things which were lawful for them" and in the 161st verse; "And because of their taking interest, which was forbidden to them, and their consuming people's wealth unjustly. We have prepared a painful punishment for those of them who remain disbelievers". It is stated that the Jews suffered a painful punishment because they disobeyed the prohibition.

In the period of ignorance, when the debt was not paid when it was due, double payment was made. When the money reached high amounts with interest, it became even more difficult for the debtors to pay it. Allah warned the Arabs in the period of ignorance by saying in the 130th verse of the Ali Imran Surah, "O you who believe, do not consume interest multiplied and doubled. Fear Allah that you may be successful."

Finally, the prohibition of interest in all its forms and forms, its being forbidden, and its being definite, is stated in the verse, "O you who believe! Fear Allah and abandon your interest, if you are truly believers" (Baqarah, 2/278). Then, in the 279th verse, "If you do not do (what is said about interest), then be aware of the war waged (against interest) by Allah and His Messenger. If you repent and desist, your capital is yours, and you will neither wrong nor be wronged." In the 275th verse of the Surah Al-Baqarah, it is stated with certainty that "Those who consume *riba* (usury) will rise (from their graves) as those who have been possessed by Satan rise from a fit of madness. This is because they say, "Buying and selling is like *riba*." And Allah has made trading lawful and *riba* unlawful. Whoever receives an admonition from his Lord after this and desists from *riba*, then what happened in the past will be his, and his case is with Allah. And whoever returns to *riba*, then those are the people of Hell, wherein they will abide forever." It is a solid and efficient method used to prevent evils that gradually harm and damage society, without ignoring the situation of the society (Cemal, 1971).

### **Hadiths Related to Interest**

Before Islam, the Prophet Muhammad (SAV) also saw usury as an ugly custom and bad behavior and in his farewell sermon he said; "All the customs of the pre-Islamic period are under my feet. The usury of the pre-Islamic period has also been abolished. The first usury I abolished was that of our relative, Abbas, the son of Abdulmuttalib. All of it has been abolished and thrown away." In order for those in administrative positions to be more effective in society, they should start with the closest ones about a situation they want to order or warn against (Cemal, 1971).

Our Prophet mentioned in his Sunnah both the one who receives interest and the one who gives interest. It is narrated from Awn, the son of Abu Juhayfa, that "The Messenger

of Allah did not give interest to the one who gets a tattoo. " He cursed the one who consumes (usury) and the one who gives usury. He also cursed the person who makes pictures." (Aktepe, 2012). There are many hadiths that do not find interest appropriate in economic life.

### **Fund Raising Methods of Participation Banks**

Savings or idle funds into the economy and to bring savings together to ensure capital accumulation and transfer them to the economic system. The demand for the system from Muslim and some European countries is increasing. The funding sources of Participation Banks are as follows.

#### **Current Accounts**

It is the account where all transactions between your company and its customers and suppliers are collected. In other words, it is an account that does not create interest, income or loss for any customer who has an account at the bank.

Since the bank has an obligation to reimburse the money deposited into these accounts, which is approved by the bank, the funds in these accounts are in the form of a debt given to the bank by the customer.

The customer is not always required to make transactions where they first opened their account. However, when a customer makes transactions outside the bank where they opened their account, the bank may charge the customer a fee. Funds deposited in interest-free banks do not have the character of a loan given to these banks. These funds are in the nature of trust.

#### **Investment Accounts**

Individuals or institutions that use their savings to evaluate them on a profit and loss basis and transfer them to commercial institutions use investment accounts. The investment account is also called a *Mudaraba* account. With an investment account, there is a three-way cooperation between the customer with a surplus and the bank, and between the bank and the businessman who needs capital. In the first part, there is a fund account. In the second part, this relationship is followed in a separate current customer account. All financial transactions made by the person using the loan with the investment account must be recorded in this account. *Mudaraba* contract is signed between the bank and the customer. The profit-loss participation rates and terms are included in this contract. The terms and conditions are stated. Accounts are opened for terms of 3 months, 6 months and 1 year or longer. The customer should not withdraw their money before these terms are over.

#### **Savings Accounts**

Savings are small amounts. Savers make their payments annually in the form of dividends. There is no guarantee in advance as to how much the saver will earn.

Individual retirement is also included in savings accounts. It is a savings system

where individuals can evaluate their savings completely optional, with the priority of providing benefits to economic development, with the law numbered 4632 dated 28.03.2001.

### **Precious Metal Accounts**

Nowadays, banks that are involved in the sector also include the gold that customers keep under their pillows into the system by calculating it based on 24 carat gold at certain times.

The volume of gold banking is growing with the support of the public sector. Gold savings are stored in bank vaults by opening a gold account and deposited into the customer's account in a registered form. Small amounts of gold that cannot be purchased from the market are thus added to the economy (Aktepe, 2012).

### **Special Fund Pools**

In the Banking Law, the Central Bank may create special fund pools with a maturity of not less than three months by collecting funds in independent accounts to be used in the financing of previously determined projects or other investments, regardless of the maturity and types determined by the Central Bank.

## **Reasons Requiring the Public to Enter the Participation Banking Sector**

Public participation banking has been included in the transformation program and has become a state policy. One of the reasons why the state entered the banking sector is to ensure the continuity of economic stability. In addition, the state is to ensure that banks that have payment difficulties for various reasons in the most adverse times are taken under the scope of SDIF, their managements are seized and the payment difficulties that will occur afterwards are resolved by the state. Today, it is possible to list two reasons why the public should enter the participating banking sector.

### **Making Türkiye a Financial Center**

In his speech at the ordinary general assembly of the Turkish Participation Banks Association, BDDK President / (Banking Regulation and Supervision Agency) Mukim Öztekin said, Türkiye is shown as the closest candidate to becoming a regional center in the field of Islamic finance. Our country should aim to be the rising star of interest-free finance with our audit and regulation framework fully compliant with international standards and our dynamic financial system open to innovations, keeping in mind its regional advantages. He stated that the increasing investor interest in our country, especially the Gulf region funds, in recent years confirms the accuracy of this goal (South, 2018). The World Bank established the first and only center for Islamic finance research outside the United States in Istanbul.

### **Increasing the Share of Participation Banking in the Sector**

The expansion of participation banking has made many contributions to our country's economy and specifically to the financial markets. Increasing financial depth will help the sector develop so that those who are sensitive about interest rates can enter the financial sector without hesitation (Oztekin, 2018). It is very important for the public sector to enter

the participation banking sector. It needs to enter the sector to enlarge the existing pie chart and not focus on the customers of other banks (Babacan, 2018).

### **Public Participation Banking in the World and the Effects of Public Participation Banking**

Public participation banking continues to grow in importance worldwide. Seven of the ten largest banks operating in accordance with Islamic finance principles in the world are in Iran (Serpam, 2018).

The first participation bank was established in Saudi Arabia in 1975. The interest-free banking system in Arabia began to develop in 1980. In Indonesia, the takaful system was introduced in 1990, and the first sukuk was issued in 2000. There is no sufficiently developed participation banking in Indonesia yet. In Egypt, it is the Nasser Social Bank, which started its operations in 1972. In Pakistan, it is forbidden to open interest-bearing loans or collect deposits in the participation bank established in 1985. In Bahrain, the first interest-free bank was established in 1996 with the participation of Citibank. The name of the bank is Bahrain Islamic It is an Investment Bank. Thailand is established under the Thai Law under the Ministry of Finance, governed by a board of directors with an advisory board on Islamic banking. It operates in accordance with Islamic rules. The bank serves everyone, regardless of religion. The basic principle of Islamic Banking in Thailand is to share profits and losses and to pay fees as a result of renting money. The Islamic banking system started with the Government Savings Bank and ensured that the concept of Islamic window was recognized in the sector.

### **Powers Created by Participation Banks**

Participation banks, due to their sensitivity towards religion, provide the economy with funds belonging to the population that stay away from conventional banks and ensure that the funds of savers are safe. Following this, they were established as an innovation in the financial sector in order to attract Gulf capital to the country (TKBB, 2020). The fact that the banking sector in Türkiye has a low risk level and is widespread, and that the credits are individual or small business type, has ensured that it has a high profitability rate. Thus, Türkiye has become a preferred country for opening new banks or branches, especially by foreign-capital banks. In recent years, foreign capital investments have increased the total assets of participation banks, which have lower risk levels than conventional banks (Kaya and Doğan, 2017).

### **Strengths and Weaknesses of Participation Banks**

Participation banks are not exposed to interest rate risk in the event of a financial crisis since they carry out their banking activities without interest. Risky and inefficient activities other than the purpose for which they were provided has been prevented. This is one of the reasons why the amount of problematic loans in conventional banks is proportionally higher than in participation banks (Özgür, 2007). While participation banks meet the funds they collect in the long term with their own financial leasing instruments, participation banks, on the other hand, use the funds collected in the short term in their short-term economic activities. Thus, they ensure maturity compatibility between the assets and liabilities of their

balance sheets (Özgür, 2007).

### Conclusion

When the studies on the concepts of money and banking are examined, it is possible to see that both concepts date back to the early ages of humanity. In this context, banking and trade are two concepts that are necessary for people to meet their various needs and to continue their lives together. Banking activities, which started as barter in the past, continue their existence without slowing down today. The history of banking services also extends to Babylon and summer in this context. When we look at the first known banking institutions in 3500 BC, we can say that they are models established by the Sumerians.

Although banking activities continue unabated today, these activities operate in a very different way in Islamic countries. In Islamic countries where banks are against interest as the main source of financing, the interest-free banking system prevails. In our country, the concept of Islamic banking, called participation banking, has been in existence for many years. Participation banking, which first started in Türkiye with Albaraka Türk Bank, continues to exist today. Kuveyt Türk, Ziraat Katılım, Vakıf Katılım, Türkiye Finans and Albaraka Türk are the participation banks that continue their activities today.

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