Participation Banks

in Turkish Financial System

December, 2017

PARTICIPATION BANKS ASSOCIATION OF TURKEY

Turkish BankingSector

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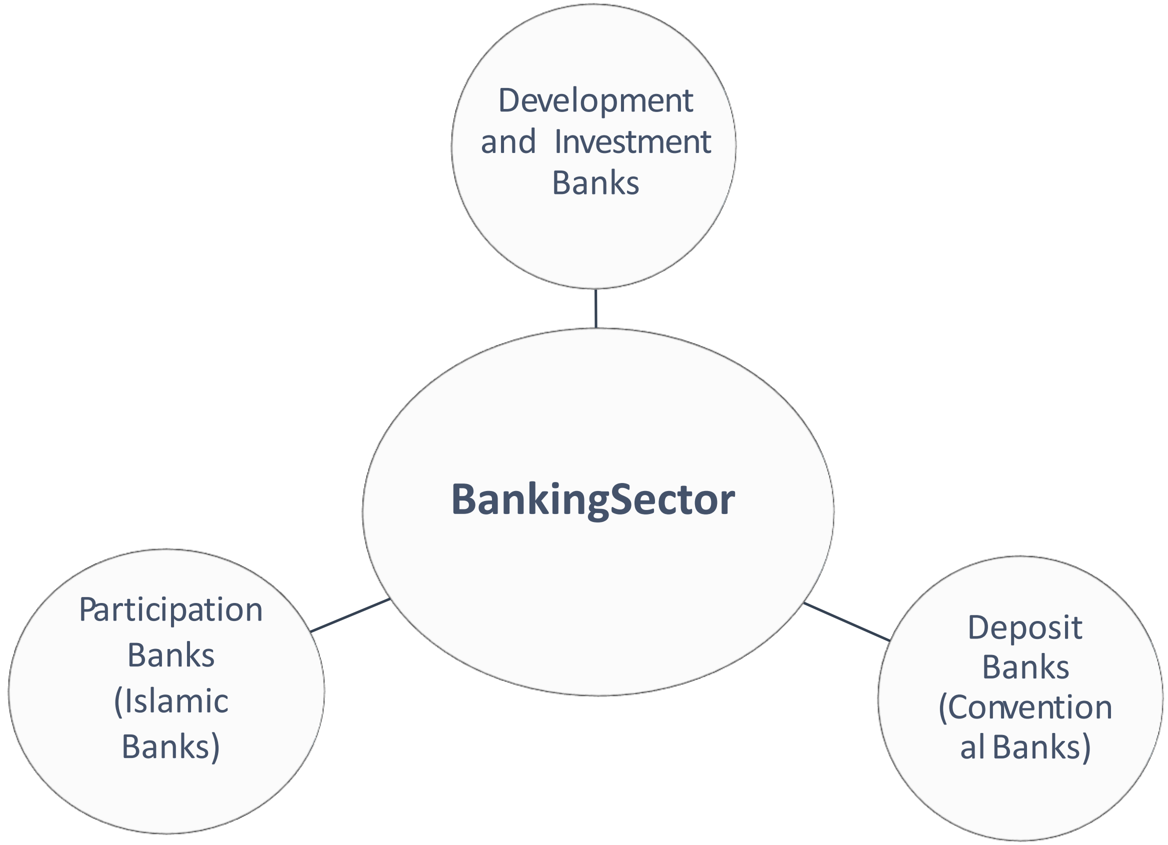


Size of the Turkish Banking Sector (December, 2017)

BANKS	THE NUMBER OF BANKS	ASSETS		FUNDS COLLECTED		FUNDS ALLOCATED	
		MILLION TL	SHARE (%)	MILLION TL	SHARE (%)	MILLION TL	SHARE (%)
Deposit Banks	33	2.922.680	89.71	1.613.839	93.87	1.905.940	88.83
Participation Banks	5	160.136	4.91	105.310	6.12	106.733	4.97
Development and Inv. Banks	13	175.002	5.37	0	0	132.807	6.19
Total	**51**	**3.257.819**	**100**	**1.719.149**	**100**	**2.145.480**	**100**

Regulatory Structure

- Conventional and participation banks can collect the funds (through different mechanism) and allocate them in loans, 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 Banking Regulatory Environment

PARTICIPATION BANKS ASSOCIATION OF TURKEY

- 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.

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

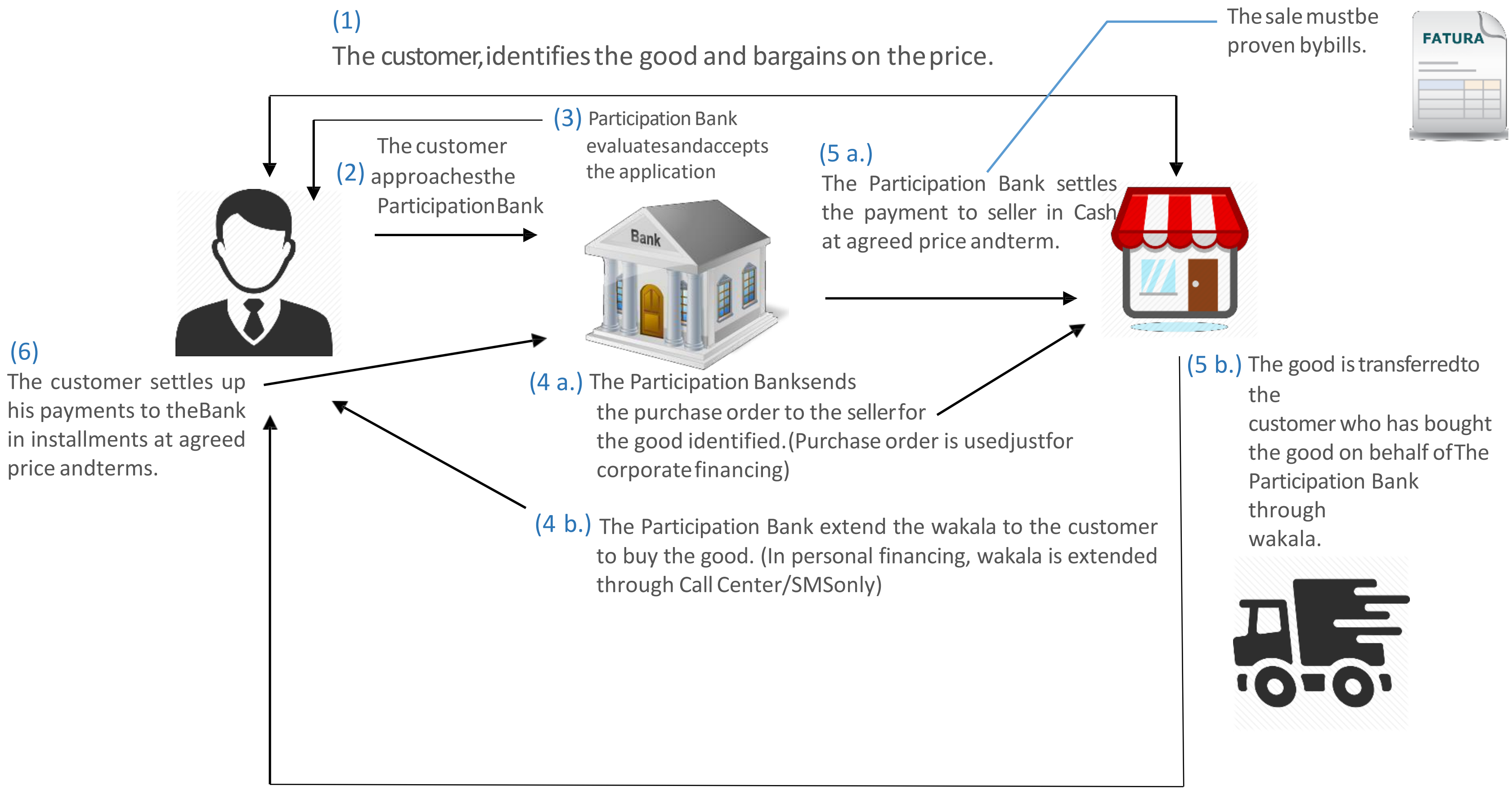
Corporate Finance Support :

- 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. Tobe purchased are paid to the seller,
- Customer becomes indebted to the bank.

The Modus Operandi of Participation Banksin Individual and Corporate Financing



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

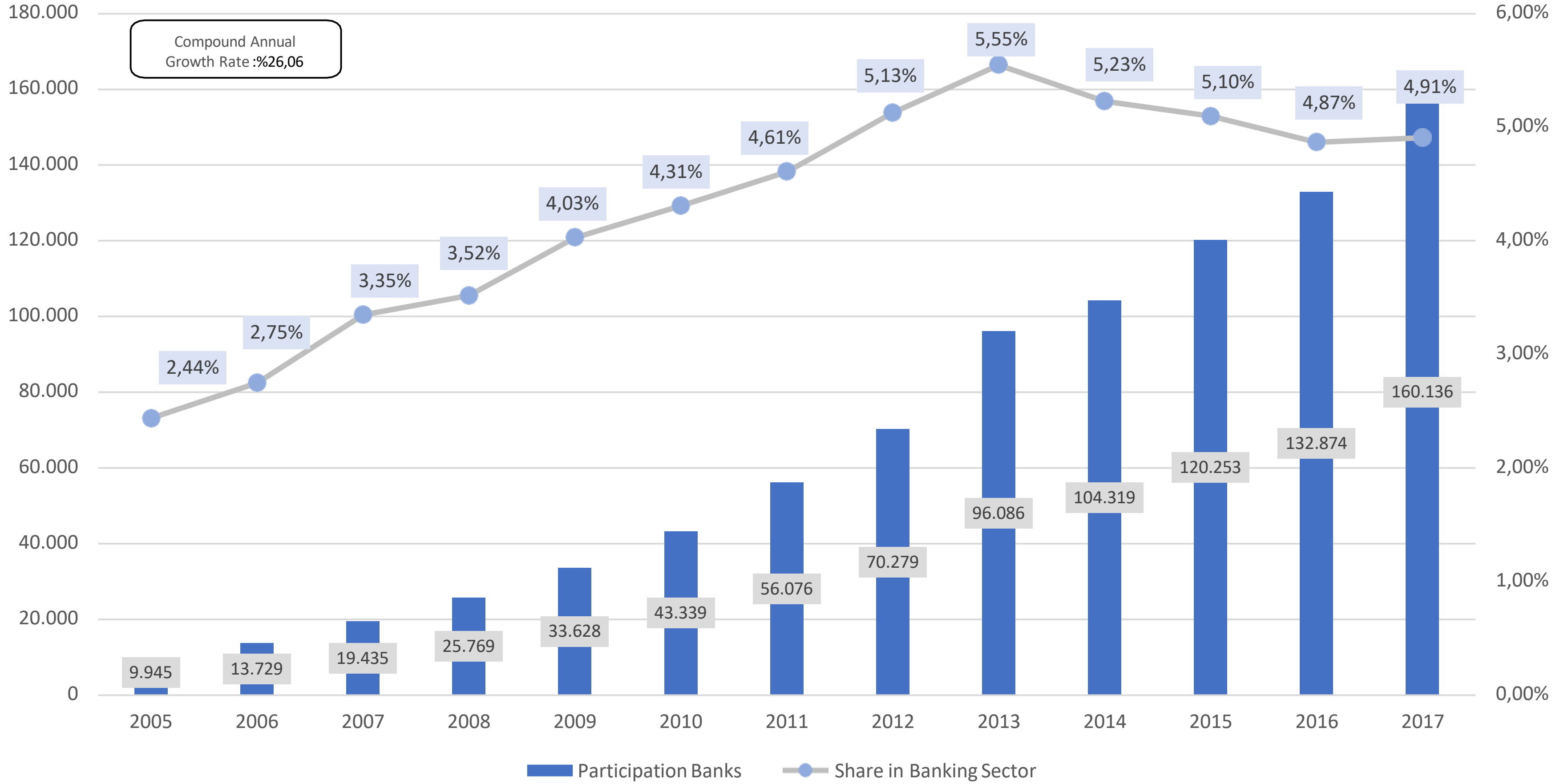
PARTICIPATION BANKS ASSOCIATION OF TURKEY

- Assets growth
- Funds raised growth
- Allocated funds growth
- Allocated funds / raised funds ratio
- Shareholders' equity growth
- Main financial figures of Participation Banks
- Branches and staff growth

Asset Growth (Thousand TL)

Years	Participation Banks	Growth (%)	Banking Sector	Share in Banking Sector (%)
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	120.253.000	15,27%	2.357.453.000	5,10%
2016	132.874.000	10,50%	2.730.942.000	4,87%
2017	160.136.000	20,51%	3.257.819.000	4,91%

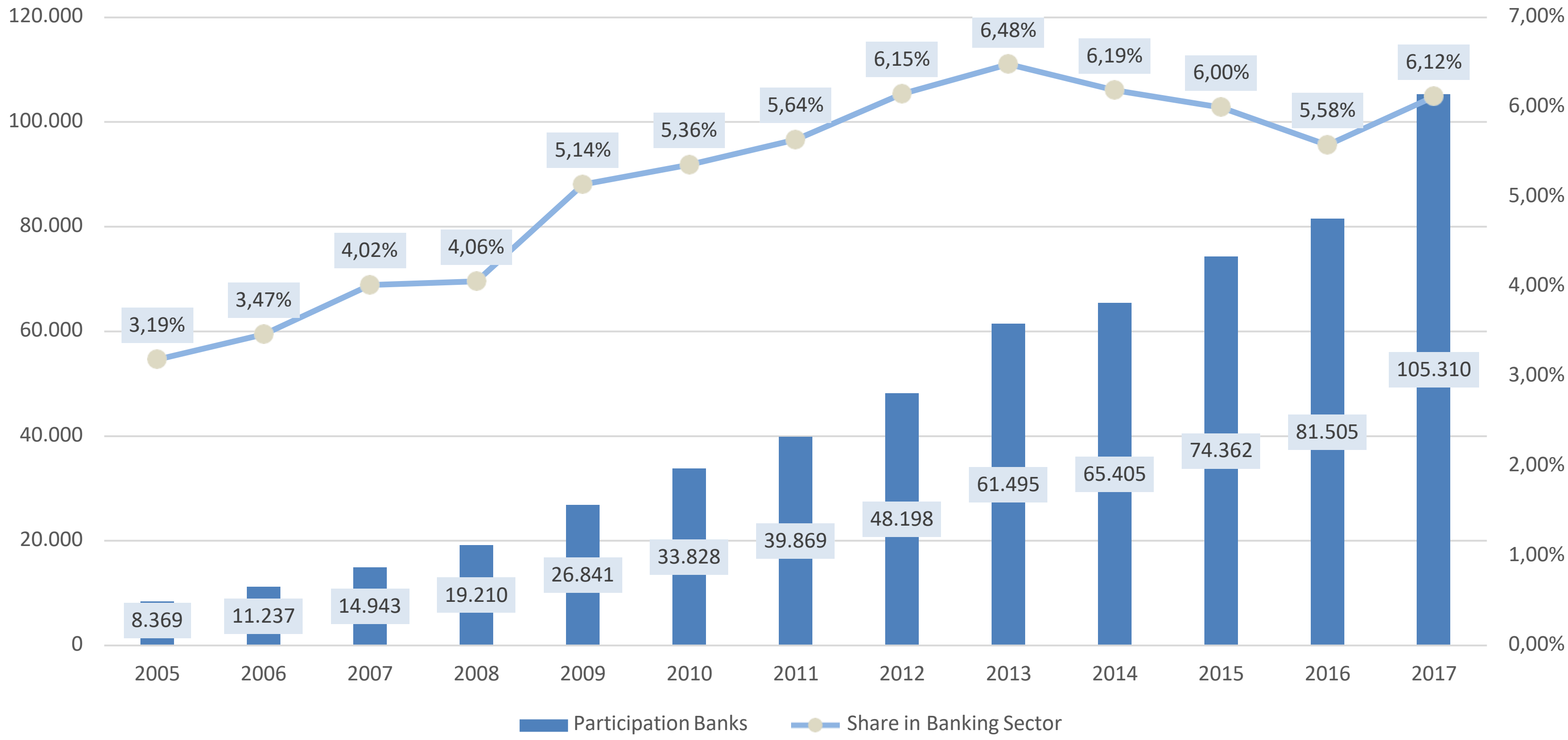
Asset Growth (%)



The Growth of Funds Collected (Thousand TL)

Years	Participation Banks	Growth (%)	Banking Sector	Share in Banking Sector (%)
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	6,35%	1.056.679.000	6,19%
2015	74.362.000	13,70%	1.250.016.000	6,00%
2016	81.505.000	6,60%	1.459.269.000	5,58%
2017	105.310.000	29,20%	1.719.149.000	6,12%

The Growth of Funds Collected (%)



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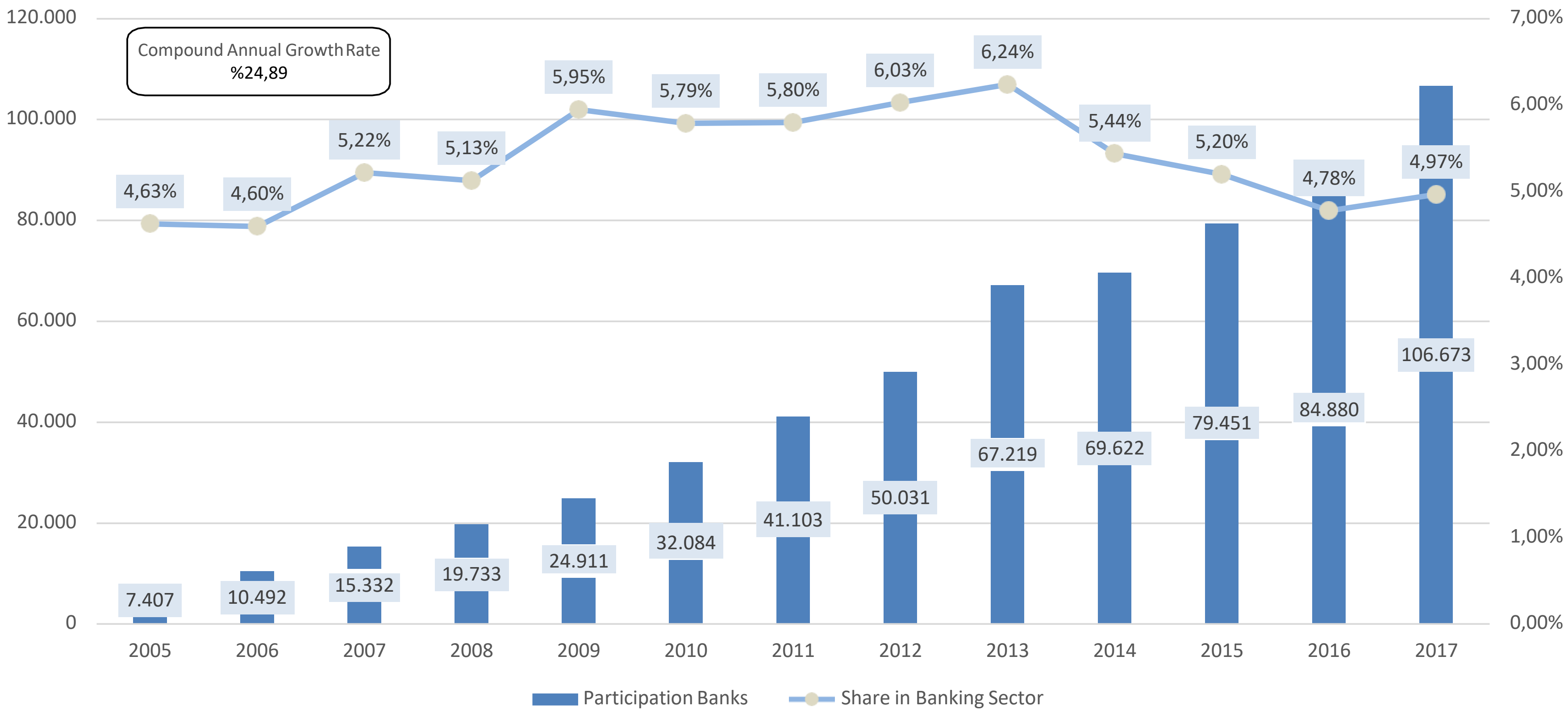
Funds Allocated (Thousand TL)

Years	Participation Banks	Growth (%)	Banking Sector	Share in Banking Sector (%)
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	79.451.000	14,11%	1.526.847.000	5,20%
2016	84.880.000	6,84%	1.773.745.000	4,78%
2017	106.673.000	25,74%	2.145.479.000	4,97%

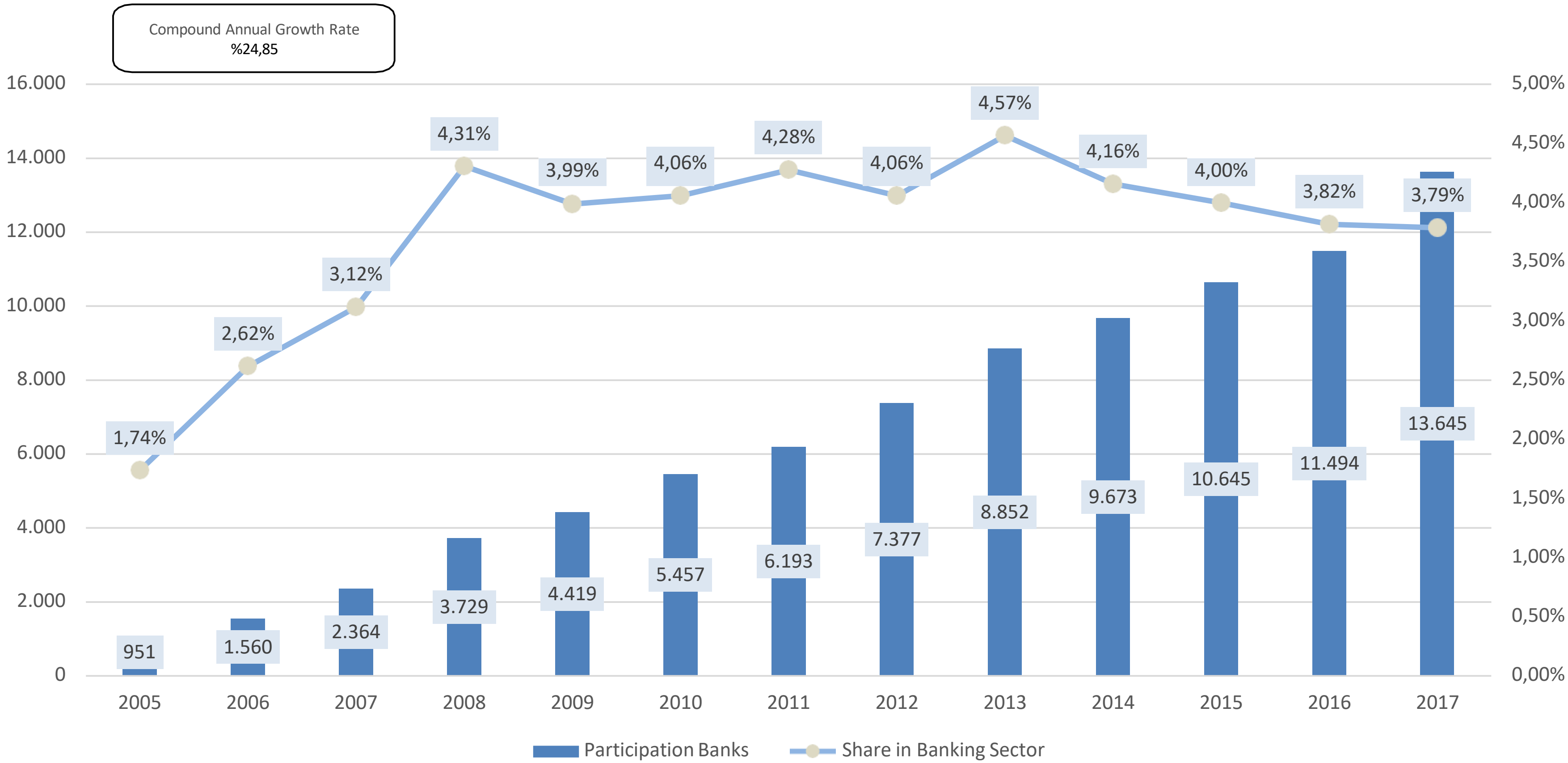
Funds Allocated (%)



Shareholder's Equity (Thousand TL)

Years	Participation Banks	Growth (%)	Banking Sector	Share in Banking Sector (%)
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	10.645.000	10,00%	262.275.000	4,00%
2016	11.494.000	8,00%	300.172.000	3,82%
2017	13.645.000	18,71%	359.091.000	3,79%

Shareholder's Equity (%)



Main Financial Figures of Participation Banks (Million TL)

No	Description	31.12.2016	31.12.2017	Variation per to last year (%)
1-	FUNDS COLLECTED	81.505	105.310	29,21%
	TL	48.313	57.494	19,00%
	FC	29.984	43.180	44,01%
	FC-METAL	3.208	4.636	44,51%
2-	FUNDS ALLOCATED	84.880	106.733	25,75%
3-	TOTAL ASSET	132.874	160.136	20,52%
4-	NON-PERFORMING LOANS / FUNDS ALLOCATED	3,70%	3,20%	-
5-	NUMBER OF BRANCH	959	1032	7,61%
6-	NUMBER OF STAFF	14.465	15.029	3,90%

The Growth of Staff & Branches

Years	Branches	Growth (%)	Staff	Growth (%)
2005	290	14,00%	5.740	20,00%
2006	355	22,00%	7.114	24,00%
2007	422	19,00%	9.215	30,00%
2008	530	26,00%	11.022	20,00%
2009	560	6,00%	11.802	7,00%
2010	607	8,00%	12.677	7,00%
2011	685	13,00%	13.857	9,00%
2012	829	21,00%	15.356	11,00%
2013	966	17,00%	16.763	9,00%
2014	990	2,00%	16.280	-3,00%
2015	1.080	9,00%	16.554	1,70%
2016	957	-11,30%	14.492	-12,40%
2017	1032	7,83%	14.874	0,03%

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.

General Outlook

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.

General Outlook

10. 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.

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

In Short

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 theBalance-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 positiondeficits.

In Short

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 monthlyinstalments 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.

In Short

-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".

THANK YOU

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