Chapter 5
Performance of Participation Banks in Türkiye

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ABSTRACT

Interest-free banking has been steadily gaining a larger share worldwide, introducing alternative financial products to individuals and businesses. However, since all financial intermediaries operate within the same economic system and the core function of intermediation inherently involves earning profits from borrowing and lending activities, it is not possible to consider interest-free banking as entirely separate from conventional banking. In practice, the differences in terminology and theoretical foundations among banking groups often converge significantly. This study presents the performance of participation banks—the practitioners of interest-free banking in Türkiye—over the past 10 years (December 2014–December 2024). Evaluated alongside the development of deposit banks, the performance results of participation banks highlight their expanding role in the sector. While participation banks have outperformed conventional (deposit) banks in terms of balance sheet growth, their financial results and profitability trends

DOI: 10.4018/979-8-3693-8079-6.ch005

have varied across different years.

INTRODUCTION

In the financial system, interest-free banking represents a significant alternative financial intermediation function, particularly in certain regions and countries. Both interest-based and interest-free finance fundamentally serve the same intermediary role. Financial institutions facilitate the allocation of savings for individuals and companies with surplus funds and meet the financing needs of those requiring funds while also helping them manage various risks.

The core principle of interest-free banking institutions, as reflected in their designation, is the rejection of interest and the implementation of an interest-free banking model. Instead of interest, these banks structure their assets and liabilities based on profit-sharing. Profit is generated through credit transactions linked to trade, partnerships, and investments, while returns on collected funds (deposits) are distributed as profit shares from income pools.

A key point of debate regarding modern interest-free banks is their preference for pre-determined fixed installment credit over true profit-and-loss sharing models. This approach resembles conventional (deposit) banking's interest calculation methods, leading to discussions about its alignment with the fundamental principles of interest-free banking. Specifically, the addition of a profit margin to the transaction cost of trade-based financing—resulting in a fixed, predetermined profit share—raises questions about its consistency with the profit-and-loss-sharing concept. While this study does not focus on the operational principles of interest-free banking in detail, it presents various perspectives related to participation banks.

The terms 'Islamic banking,' 'Islamic Finance,' and 'Interest-Free Banking' are widely used in literature and banking. However, this study primarily uses the terms 'interest-free banking' with reference to global practices, and 'participation banking' specifically within the context of Türkiye. Therefore, in this study, participation banking is referred to as interest-free banking, and conventional banking is referred to as deposit banking. these two banking groups, serving the same customer base within the same economic system, share significant similarities. However, in the context of financial statements, operating results, and performance analysis, participation banking fulfills its

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