

2021-2025

Participation Banking Strategy Update Report



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Table of Contents

	Secretary General's Message	7
	Executive Summary	8
	Participation Banks Association of Turkey and Participation Banks	10
1	1. Overview of Interest-free Banking	11
	1.1 Overall Situation of Global Interest-free Banking	12
	1.2 Selected Markets in Global Interest-free Banking	16
	1.3 Development of Participation Banking in Turkey	22
2	2. Vision and Strategic Objectives of Participation Banking in Turkey	27
	2.1 Studies for Setting the Vision and Objectives	28
	2.2 Vision, Mission and Strategic Objectives of Turkish Participation Banking	31
3	3. Important Areas for Vision and Strategic Objectives	35
	3.1 Impacts of Covid-19 Pandemic on the Banking Sector	36
	3.2 Digitalization Trend in Banking Sector	40
	3.3 Istanbul International Finance Center (IFC)	42
4	4. Growth Forecasts of Turkish Participation Banking	44
5	5. Current Status of Strategic Objectives	47
6	6. Strategic Objectives for the Period from 2021 to 2025	63
	6.1 Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis of Turkish Participation Banking	65
	6.2 Actions Necessary to Achieve the Strategic Objectives	66
7	7. Roadmap for Strategic Objectives	73
	References	83
	Lists of Tables and Graphs	85
	List of Abbreviations	86

SECRETARY GENERAL'S MESSAGE

We felt the need to prepare the Participation Banking Strategy Update Report (2021-2025) of the Participation Banks Association of Turkey (TKBB) considering the changes in today's banking conditions and other challenges imposed by the novel coronavirus (Covid-19) on the institutional/individual customer approaches in the banking sector to further develop participation banking in a sound and sustainable way. The report conducted with a mutual coordination of TKBB and EY Turkey Consulting during last 12 weeks of 2020. The updated strategy report focuses on reviewing the global and local status of participation banking sector, revising the status of the actions set out in the original report dated 2015 and developing new strategies for the period of 2021-2025. The goal of reaching the 15% market share by 2025 that was determined in 2015, is still relevant in our updated strategy report.

A three-phase methodology was adopted in the project management process of the Turkish Participation Banking 2015-2025 Strategy Update Report, resulting in Participation Banking Sectoral Research, Turkish Participation Banking Market Size, Projections for 2025 and Strategy Update studies, respectively. Both domestic and international reports were studied to get to know the ecosystem comprehensively and identify the stakeholders, and meeting were held with the relevant institutions in the participation banking industry. We met with over 20 stakeholders both in public and private sector. Finance Office of the Presidency of Turkey, Ministry of Treasury and Finance, BRSA, CMB, BIST, TÜRİB, Eximbank, TSB, Istanbul Financial Centre, participation insurance companies, Institute of Islamic Economics and Finance of Marmara University, and participation banks are among the institutions that we contacted. Market size projections were made for the goal of reaching a 15% market share in Turkish banking sector by 2025, which was determined in the original report and is still relevant in the Participation Banking Strategy Update Report (2021-2025). The vision, mission, and the strategic goals defined in the Participation Banking Strategy Document of Turkey (2015-2025) were discussed with the ecosystem stakeholders, and the status of the actions were reviewed. New strategic goals and actions were determined with a new road map and responsibility matrix. The updated strategic report includes 10 strategies and 23 actions under the 6 fundamental strategic goals, as being Communication, Ecosystem, Product Diversity, Standards and Governance, Digital and Competency Building. 84 actions placed under five fundamental strategic goals (Sectoral Strategy, Product Diversity, Advisory Boards, Education, HR, Certification and Corporate Communication, Perception, Reputation) defined in 2015 in the Participation Banking Strategy Document of Turkey (2015-2025) were reviewed one by one; of which 50 were reported to be completed, and the remaining will be followed up in the new report.

The main points of focus for the next five years can be summarised as strengthening the relations between participation banks and their customers, increasing awareness of the operation processes, and functioning of the participation finance system, improving the cooperation mechanisms with the stakeholders of the ecosystem, increasing digital competency, providing product diversity for customer needs, and increasing the interest-free finance literacy. Actions to be taken for the sound and sustainable development of participation banking in our country are planned under the six fundamental strategic goals and action cards were created for each strategy with the application of project management methodologies. TKBB started its project management activities as of February 1, 2021 to achieve the fundamental strategic goals.

I would like to express my gratitude for all our stakeholders who have contributed to the development of the report and wish that this report would be beneficial to the entire participation banking industry.



Osman AKYÜZ
TKBB Secretary General

EXECUTIVE SUMMARY^{1,2,3,4} (1/2)

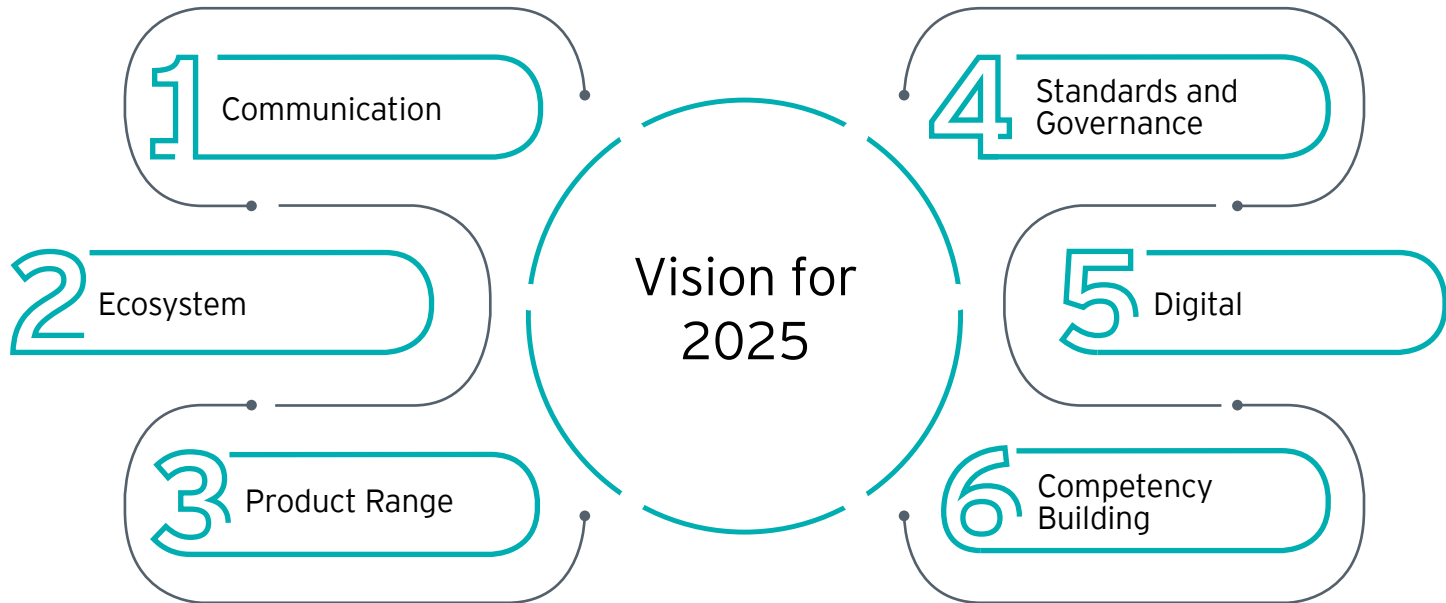
The fact that conventional banking system has started to be questioned as a result of the global crises which were experienced in the last decade and that countries started to put the interest-free banking model on their agenda, brought along developments in the sector. Having achieved an annual average growth of 7% from the 4th quarter of 2013 until the 3rd quarter of 2019, the global interest-free banking assets are expected to steadily continue their growth trend from 2021 to 2025 as well.

The share of the total assets of the participation banks in our country within the banking sector was recorded as 5.1% in 2012 and 6.3% in 2019, and it reached 7.1% as of the end of 3rd quarter of 2020. While the sukuk issuance of the Ministry of Treasury and Finance was at a value of 75 billion Turkish Liras as of the end of 2020, the sukuk issuances of Participation Banks reached to 43 billion Turkish Liras as of the end of November 2020.

The participation banking's objective of achieving a market share of 15% in 2025, which was set in the Turkish Participation Banking Strategy Document (2015-2025), is still applicable in the Participation Banking Strategy Update Report (2021-2025). With this anticipated growth, Turkish participation banking assets are expected to reach 1.77 trillion Turkish Liras by 2025.

Within the scope of the objective that was set, the actions to be taken for a healthy and sustainable development of participation banking in our country were planned under 6 main strategic objectives, being Communication, Ecosystem, Product Range, Standards & Governance, Digital, and Competency Building. The study was prepared in line with the interviews made with the member participation banks and sector stakeholders in coordination with the Participation Banks Association of Turkey.

Strategic Objectives for the Vision of Turkish Participation Banking for 2025



Reference: (1) Monthly Bulletin of BRSA; (2) Sukuk Issuance Volumes Report of TKBB; (3) Website of the Ministry of Treasury and Finance of the Republic of Turkey; (4) Turkish Participation Banking Strategy Document (2015-2025)

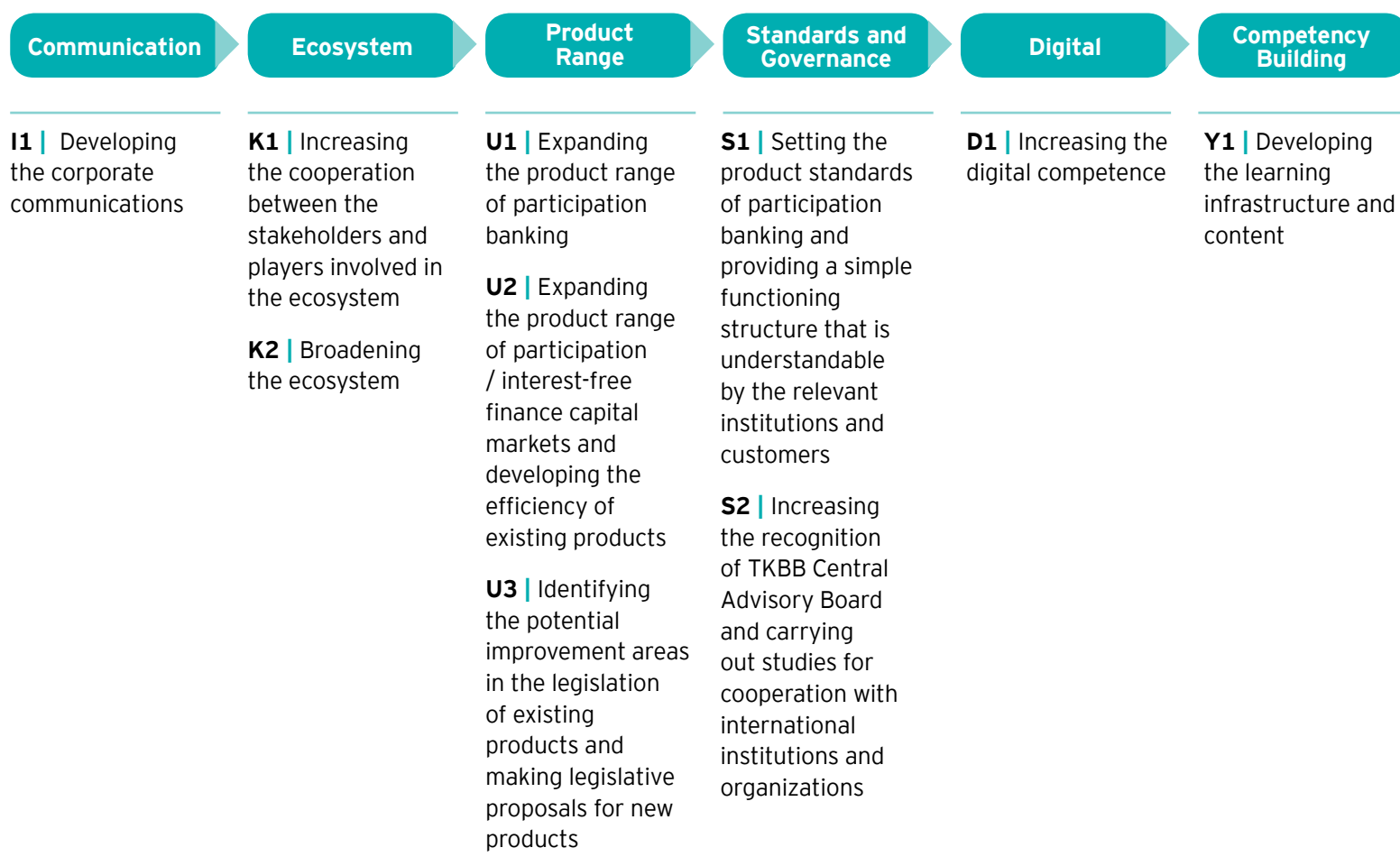
EXECUTIVE SUMMARY (2/2)

Change in today's banking conditions and the changes brought by Covid-19 in corporate and retail banking customers' behaviors in banking sector caused the Participation Banks Association of Turkey to review its strategic objectives that it had set in 2015. Strengthening the communication with the target customers of participation banking, explaining to the customers in detail the operational processes and functioning of the interest-free finance system, developing the mechanisms for cooperation with the stakeholders of participation banking ecosystem, providing a product range that will meet the needs of customers, and raising the level

of knowledge and awareness of individuals and sector employees, have become the main areas of focus for the next 5 years.

Accordingly, **the Participation Banking Strategy Update Report (2021-2025) set 10 strategies under the 6 main strategic objectives and 23 actions in connection with those strategies.** 21 ongoing tasks that were contained in the Turkish Participation Banking Strategy Document (2015-2025) will be also included under the relevant strategy and action headings.

Main Strategic Objectives and Strategies



PARTICIPATION BANKS ASSOCIATION OF TURKEY AND PARTICIPATION BANKS^{1,2}



- ▶ The Association of Special Finance Houses that started its activities in 2001 under the Banking Law as a professional organization in the status of a public institution has become the umbrella organization of participation banks.
- ▶ When the special finance houses were named “participation banks” under the Banking Law no. 5411 that was published on the Official Gazette of the Republic of Turkey dated November 1, 2005, the title of the Association was changed to the Participation Banks Association of Turkey.
- ▶ All the participation banks operating in Turkey are members of the Association and the Association has 6 members.



- ▶ Albaraka Türk Katılım Bankası completed its establishment in 1984 and started operations as of early 1985.
- ▶ Founded under the leadership of Albaraka Banking Group (ABG), one of the leading groups of Middle East, the Islamic Development Bank (IDB), and a local industry group which has been serving the Turkish economy for more than a half century, Albaraka Türk has a foreign shareholding of 62.12% (Albaraka Banking Group 36.29%; Dallah Al Baraka Holding 15.38%; Islamic Development Bank 7.84%; Others 2.60%), a domestic shareholding of 1.86%, and the share open to the public is 36.02% as of 01.09.2020.



- ▶ Kuveyt Türk Katılım Bankası, which was established in 1989 in the status of a Special Finance House, has become subject to the Banking Law no. 4389 starting from December 1999, like other Special Finance Houses.
- ▶ Capital of Kuveyt Türk belongs to 62.24% to Kuwait Finance House; 18.72% to Directorate General of Foundations; 9% to Wafra International Investment Company; 9% to the Islamic Development Bank, and 1.04% to other shareholders.



- ▶ Türkiye Finans was established in 2005 with the merger of “Anadolu Finans” which was established in 1991 as the first special finance house with 100% domestic capital, and “Family Finans” which provided participation banking service from 1985 to 2001 under the name of “Faisal Finans Kurumu”.
- ▶ In 2007, the National Commercial Bank (NCB), the bank with the largest capital in Saudi Arabia and Middle East, acquired 60% of shares of Türkiye Finans and became the controlling shareholder of the Bank.



- ▶ Ziraat Katılım Bankası completed its establishment in 2014 and started operations as of 2015.
- ▶ Ziraat Bankası A.Ş. (the entire capital of which belongs to the Undersecretariat of Treasury) is the main shareholder of Ziraat Katılım Bankası with a shareholding of 99.9% and Türkiye Sigorta, Türkiye Hayat ve Emeklilik, Ziraat Teknoloji and Ziraat Yatırım Menkul Değerler A.Ş. also have shares therein.



- ▶ Vakıf Katılım Bankası was established on June 25, 2015 as a joint stock company and it obtained its business license on February 17, 2016.
- ▶ The Directorate General of Foundations has a shareholding of 99% in its shareholding structure and the foundations named Bayezid Han-ı Sani Vakfı, Mahmut Han-ı Evvel Bin Mustafa Han Vakfı, Mahmut Han-ı Sani Bin Abdulhamit Han-Evvel Vakfı and Murat Paşa Bin Abdusselam Vakfı have shares therein as well.



- ▶ Having been established in 1926 under the name of Emlak ve Eytam Bankası, the bank continued its operations under the names of Türkiye Emlak Kredi Bankası, Tek Bank, and finally Türkiye Emlak Bankası, respectively.
- ▶ It was reopened on February 25, 2019 under the name of Türkiye Emlak Katılım Bankası. The Ministry of Treasury and Finance is the main shareholder of Türkiye Emlak Katılım Bankası with a shareholding of 99.99%



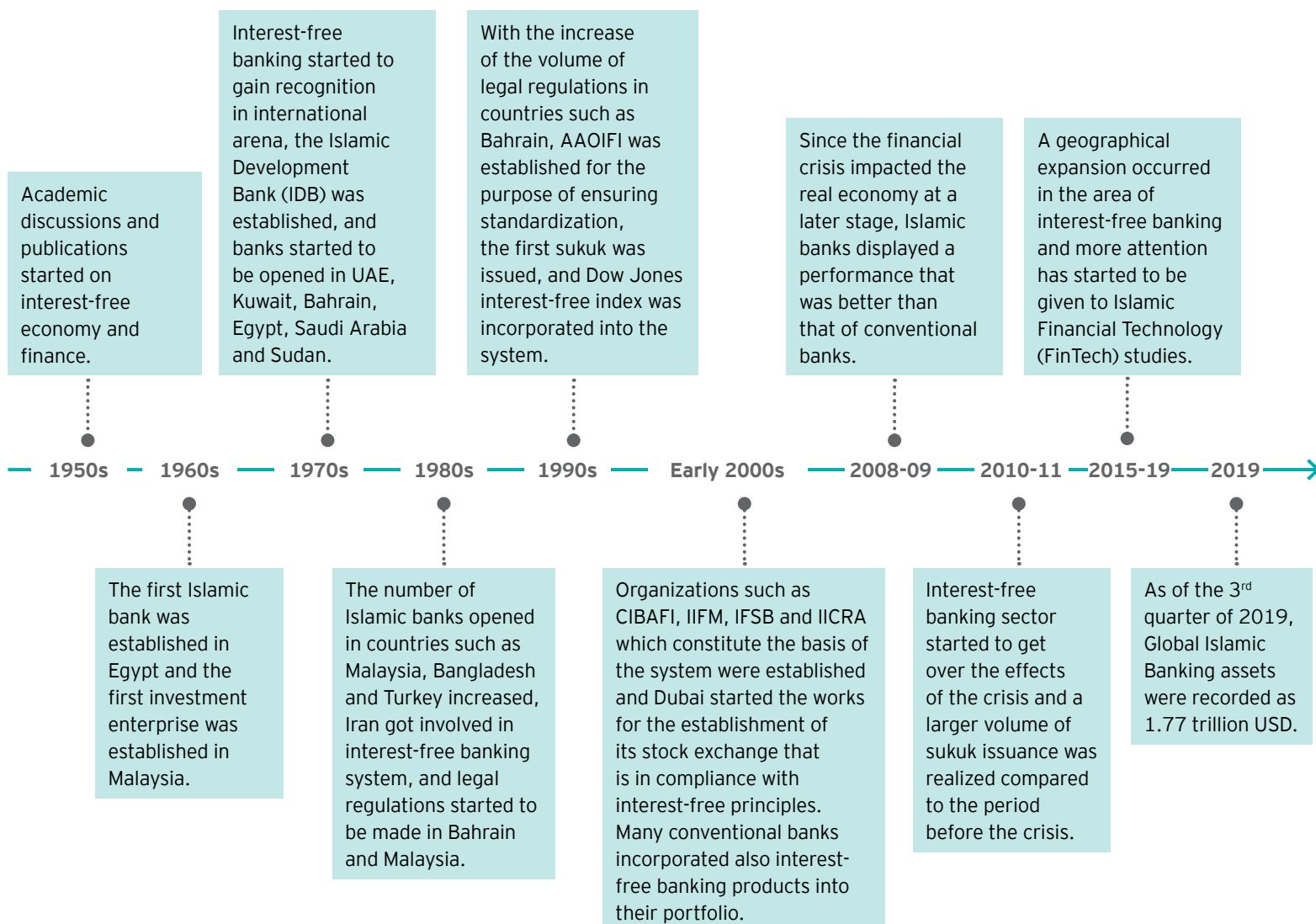
1 Overview of Interest-free Banking

1.1 OVERALL SITUATION OF GLOBAL INTEREST-FREE BANKING

In countries where Muslims constitute the majority of the population, the interest-based infrastructure of conventional banking sector started to be questioned as of 1950s. With the first steps taken in mid-1970s for interest-free banking system, banks operating in accordance with interest-free principles entered into the system that started to become an important alternative to conventional banks in countries where Muslims constitute the majority of the population. In the 1990s, interest-free banking attracted the attention of international banks as well and these banks started to provide services also in accordance with interest-free principles in countries where Muslims constitute the majority of the population. When the sector started to grow and develop, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which is one of the major organizations that would shape the practices of the system and support the sector with legal regulations, was established in 1991. The sector attracted international attention and accelerated its growth in 2000s. The services provided by

interest-free banking institutions started to gain recognition and to be in demand in international arena. However, the most important factor in the sector’s achievement of its current figures has been the economic crisis experienced in 2008. While conventional banks had a problem of profitability in the economic crisis period experienced in 2008, Islamic banks continued their growth and profitability until the time the crisis started to adversely affect the real sector as well. It was seen that the interest-free banking system was more resistant to the crisis which deeply impacted especially the economies of developed countries and the international finance system, due to the fact that its operations are intertwined with real economy. Interest-free banking services have expanded in recent times and are continuing to expand today in different countries and geographical locations. With the developments in digitalization and technological areas, financial solutions focused on technology have become one of the focus points of interest-free banking sector.

Journey of Global Interest-free Banking

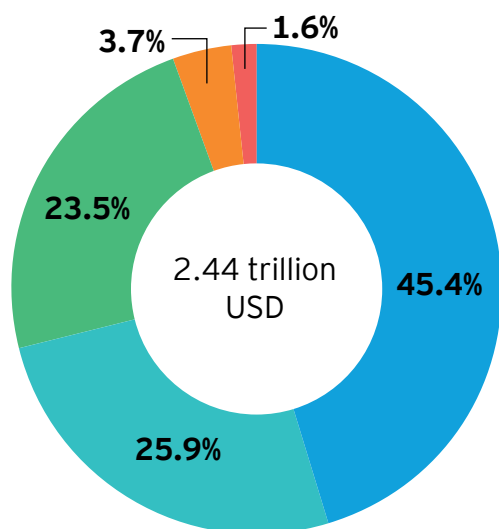


1.1 Overall Situation of Global Interest-free Banking

Global Interest-free Finance Sector

Total volume of the interest-free banking assets size, outstanding sukuk, Islamic funds assets and takaful values performed a growth of 11.4% in 2019 compared to 2018 (2.2 trillion USD) and reached 2.44 trillion USD. This increase, which was achieved in global interest-free finance sector despite the uncertainties in the global economic environment and the negative climate in financial markets, has been possible especially with the contribution of Islamic capital markets and interest-free banking areas.

Graph 1.1.1: Breakdown of IFSI by Region (%), 2019¹



● Gulf Countries ● Middle East and South Asia
 ● Southeast Asia ● Africa
 ● Other

Table 1.1.1: Breakdown of the Global IFSI by Segment and Region, 2019 (billion USD)¹

Geography	Banking Assets	Outstanding Sukuk	Islamic Funds' Assets	Takaful	Total
Gulf Countries	854	204.5	36.4	11.7	1,106.6
Southeast Asia	240.5	303.3	26.7	3.0	573.5
Middle East and South Asia	584.3	19.1	16.5	11.4	631.3
Africa	33.9	1.8	1.6	0.6	37.9
Other	53.1	14.7	21.1	0.4	89.3
Total	1,765.8	543.4	102.3	27.1	2,438.6

I. Data for sukuk outstanding and Islamic funds are for full-year 2019; for Islamic banking, they are as at 3Q19; and for takaful, they are as at end-2018.

II. Turkey is in the category of Other territories.

The Gulf Countries which have the highest share in global interest-free finance sector with 45.4% are followed by Middle East & South Asia with a share of 25.9% and Southeast Asia with a share of 23.5%. Islamic funds have had a significant place in the interest-free finance sector in 2019, in terms of both the value and the number of funds. Value of the funds which was 67.1 billion USD in 2018 reached 102.3 billion USD in 2019, and number of the funds which was 1,489 in 2018 reached 1,545 in 2019.

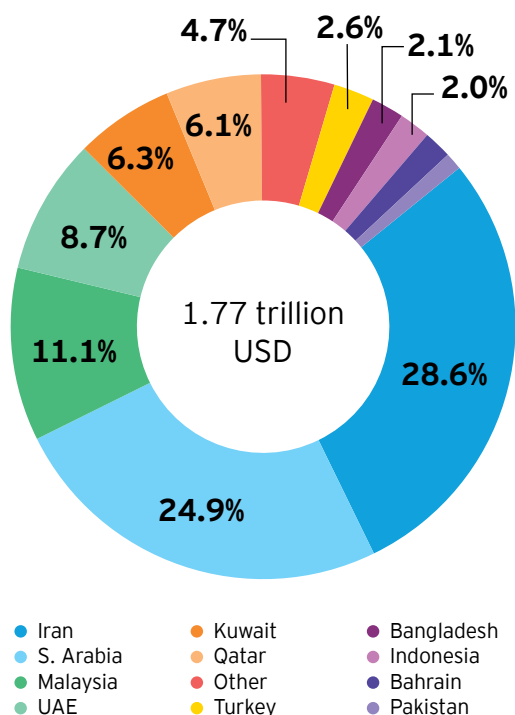
There are 353 takaful operators offering takaful products including takaful and retakaful windows, most of which are located in Gulf Countries, Middle East, Asia & South Asia and Southeast Asia. In 2018, Gulf Countries had the highest share in global market (43%) with a takaful size of 11.7 billion USD.



Reference: (1) Islamic Financial Services Industry Stability Report 2020

Assets Figures of Interest-free Banking

Graph 1.1.2: Global Interest-free Banking Assets by Country, 3rd Quarter of 2019¹



Graph 1.1.3: Interest-free Banking Assets Sizes and Penetration Rates in Selected Countries, 3rd Quarter of 2019¹



Total size of global interest-free banking assets, which was 1.57 trillion USD in the 2nd quarter of 2018, reached 1.77 trillion USD as of the 3rd quarter of 2019. The significant mergers made in Gulf Countries for the purpose of increasing competition, attracting steady and permanent funds and strengthening the productivity, allowed the achievement of a growth in Islamic banking assets compared to the previous year. Iran which has the highest share in total global interest-free banking assets with 28.6% is followed by Saudi Arabia with a share of 24.9% and Malaysia with a share of 11.1%. Turkey, on the other hand, was ranked 7th in the ranking of global interest-free banking assets, with its share of 2.6% in the 3rd quarter of 2019.

Iran and Sudan are countries that provide 100% interest-free banking services as a requirement of their economic structure.

Saudi Arabia increased its interest-free banking penetration which was 52% in the 2nd quarter of 2018 to 69% as of the 3rd quarter of 2019. The interest-free banking penetration rates of countries such as Kuwait, Malaysia, Bangladesh, Qatar and Jordan also displayed an increase compared to 2018. The interest-free banking penetration rate in Turkey reached 7.1% as of October 2020.

Table 1.1.2: Comparison of Average Assets Sizes of Islamic Banks and Conventional Banks, 2019^{2,3}

	Average Assets Sizes
20 biggest Islamic banks	640 billion USD
10 biggest conventional banks	75 trillion USD

Reference: (1) Islamic Financial Services Industry Stability Report 2020; (2) The Asian Banker The Largest Banks Rankings 2019; (3) Business Insider 10 Biggest Banks in the World in 2019

Note: (1) Countries which remained under 2% (Bahrain: 1.8% and Pakistan: 1.1%) are not indicated as percentages on the Graph.

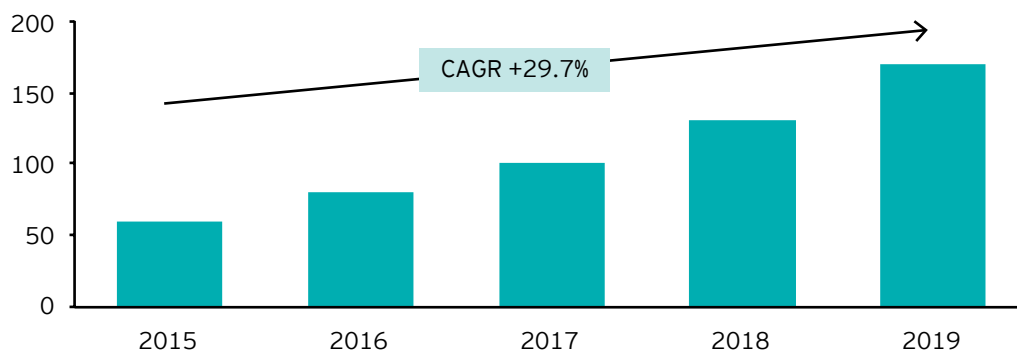
1.1 Overall Situation of Global Interest-free Banking

Development of the Sukuk Product

An increase at a rate of 29.7% occurred in global sukuk issuance value from 2015 to 2019 and the sovereign sukuk issuances constituted the majority of these with a rate of 55% in 2019. While Malaysia ranks first in sukuk issuance with its share of 36.8%, Malaysia, Indonesia, Saudi Arabia, Turkey, Kuwait and United Arab Emirates (UAE) constituted 86.1% of total sovereign sukuk issuance values in 2019. The strong growth in the market was supported by the

increasing sukuk issuances of Malaysia, Saudi Arabia, Qatar and Turkey. Following a slight shrinkage in sukuk issuances on a country basis in 2018, the growth in issuances were a reflection of better financing conditions in general sense, with the increased share of these issuances in the financing of the fiscal deficit in many territories, including in particular Gulf Countries and Turkey.

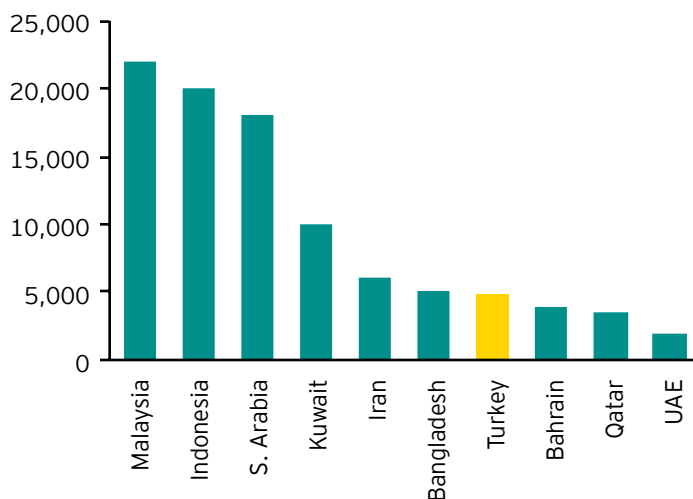
Graph 1.1.4: Global Sukuk Issuance Volume, 2019 (billion USD)¹



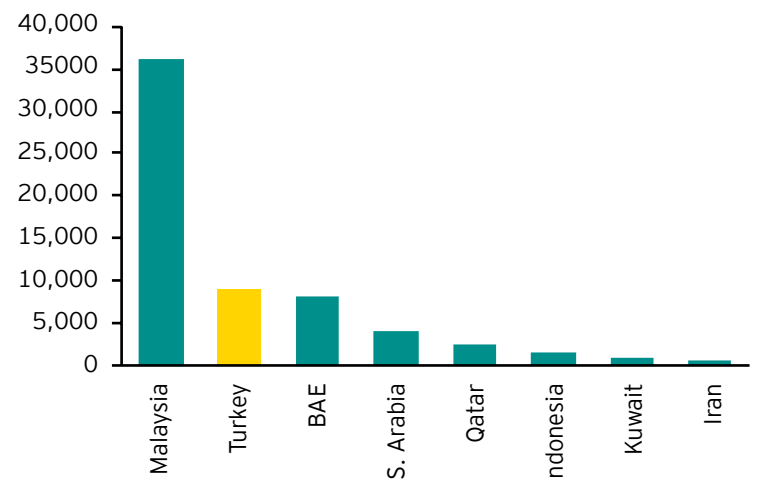
In terms of sukuk issuance structure, it was seen that sovereign sukuk issuances have continued to shape the market. In a manner that is consistent with the previous trends, sovereign sukuk issuances continue to be the sukuk issuances with the largest volumes in terms of value. In 2019, Turkey ranked 7th in sovereign sukuk issuance and 2nd in corporate sukuk issuance, in global sukuk market.



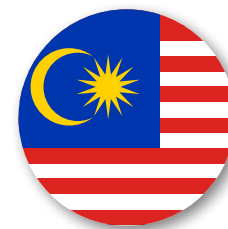
Graph 1.1.5: Sovereign Sukuk Issuance Volume in Selected Countries, 2019 (million USD)¹



Graph 1.1.6: Corporate Sukuk Issuance Volume in Selected Countries, 2019 (million USD)¹



Reference: (1) Islamic Financial Services Industry Stability Report 2020
CAGR: Compound Annual Growth Rate



1.2 SELECTED MARKETS IN GLOBAL INTEREST-FREE BANKING

Malaysia Participation Banking Sector^{1,2,3,4,5}

Structure and Functioning of the Sector

The statutory framework of the Malaysian Islamic Banking and Finance sector has been updated and consolidated by virtue of the Islamic Financial Services Act (IFSA) which was enacted in 2013. Within the framework of the Act, the Malaysian Central Bank (Bank Negara Malaysia) and the Securities Commission Malaysia SC act as the institutions that regulate the Islamic banking and finance sector. In 1997, the Shariah Advisory Council (SAC) of Bank Negara Malaysia was established in Malaysia in order to assess the compliance of the Islamic finance activities with the Islamic law. Members of the Shariah Advisory Council (SAC) consist of Shariah scholars, legal professionals, and experienced names from the banking sector. The Shariah Advisory Council that serves within the framework of the Islamic Financial Services Act is in charge of creating standards and conducting observation and audit activities in addition to assessing the compliance of contracts with the Islamic law. Furthermore, the Council carries out studies aimed at examining the compliance of the standards of the Malaysian Accounting Standards Board, and of the AAOIFI based in Bahrain.

Islamic Banks and Product Practices

The Banking and Financial Institutions Act was promulgated in Malaysia in 1989 which allows the use of a window system for the purpose of enabling conventional banks to provide Islamic banking services. 16 fully-fledged Islamic banks and 12 banks that implement the Islamic banking window model are in operation as of 2020.

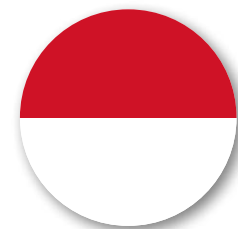
A wide range of Islamic contract models that are found admissible by the rules of Islamic law, such as mudarabah, musharakah, murabaha, salam, and vadia, are implemented in Malaysia. In 2002, sukuk issuance was started in accordance with the Islamic law provisions. Green sukuk practice has been developed in order to improve the sustainable environment approach. Moreover, Malaysia has developed the first digital sukuk practice via online channels (e.g. mobile platforms). Engaging in notable initiatives also in the matters pertaining to Islamic insurance (takaful) which is a sub-heading of the Islamic finance, Malaysia aims to develop the takaful practices in the field of health insurance in addition to vehicle insurance. Furthermore, with 22 Islamic FinTech companies, Malaysia ranks second in the global Islamic FinTech ranking. Developed as a novel insurance technology in Malaysia, InsurTech aims to offer the takaful product to low-income consumers under more suitable terms by enabling the use of the trust funds with the blockchain technology.

Sectoral Focus and Strategy

The Malaysian Islamic banking and finance sector has become strong and durable mainly as a result of close collaboration of the government, regulators and ecosystem players. The Malaysian government carries on its efforts of developing and implementing the Islamic banking and finance with a more comprehensive approach through various initiatives.

Reference: (1) Dergipark - An Examination on Islamic Finance and Islamic Banking Practices in Malaysia, 2019; (2) Dergipark - Development of Islamic Finance in Turkey, USA, UK and Malaysia, 2019; (3) Website of Bank Negara Malaysia; (4) IFN Country Analysis Malaysia 2020; (5) ICD Thomson Reuters Islamic Finance Development Report 2020

Note: The concept of Participation Banking in Turkey is used instead of Islamic Banking. Participation Banking concept has been preferred in selected countries in order to ensure uniformity in the language of report writing.



Indonesia Participation Banking Sector^{1,2,3,4}

Structure and Functioning of the Sector

The Bank Muamalat Indonesia (BMI), which is the first Islamic Finance Bank in Indonesia, was established in 1992. A special law on Islamic banking was enacted in 2008. The National Sharia Council in Indonesia (DSN) serves as the fatwa / sharia supervisory authority. The Islamic banks in the country operate under control and supervision of Indonesia Financial Services Authority (OJK). Use of sukuk started with the legislative regulation made in 2008 and public and private sector sukuk transactions started to be used in the Indonesian Capital Market. In August 2019, the regulation on sovereign sukuk issuance and sales in international markets was amended for the purpose of increasing the participation of domestic banks in the sukuk market.

Islamic Banks and Product Practices

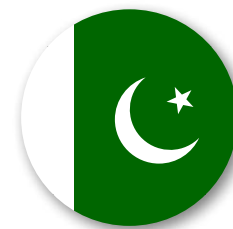
In the current situation, there are 14 fully-fledged Islamic banks, 34 banks with Islamic banking window model and 196 rural Shariah banks. In 2018, it was made obligatory for the banks with Islamic banking window model to become fully-fledged Islamic banks until 2023. In global sukuk market, Indonesia is the country with the largest sukuk issuance. It made sukuk issuances in February and November 2019 in the green sukuk market which is lead by it. Indonesian Microfinance Institution BMT Bina Ummah made the first blockchain-based sukuk issuance in 2019 through the Blossom's SmartSukuk platform. There are 13 takaful companies and 50 takaful windows and it was made obligatory for the takaful windows to become fully-fledged until 2023. The Halalvestor application, which was developed in 2019 for use of investment funds that are in compliance with Shariah principles, aims to create a new online marketplace and to increase the market knowledge and investment potential of young generation. In August 2020, the Securities Commission Malaysia SC and the Indonesia Financial Services Authority (OJK) signed a cooperation contract for the purpose of preparing a joint FinTech framework; and in addition, OJK appointed the Indonesian Sharia Fintech Association as the responsible institution in charge of developing the Islamic FinTech sector.

Sectoral Focus and Strategy

In May 2019, the Islamic Economics Master Plan 2019-24 was published in Indonesia, which has 4 main strategies focused on developing halal products, the financing of products in compliance with Shariah principles, SMEs, and digital economy. The Indonesian National Islamic Finance Committee is preparing a development roadmap for Islamic microfinance institutions. For the purpose of ensuring growth that is directly proportional to productivity, the Islamic finance sector endeavors to encourage the flow of production factors (wealth, labor, technology, innovation) towards production / investment activities. Ensuring a cooperation which prioritizes the profit sharing activities is among the primary purposes since it will allow direct and sustainable integration of the finance sector and the real sector. For the purpose of ensuring sustainability and increasing equality, strengthening of Zakat, Infaq, Sadaqa and Waqf (ZISWAF) was defined as one of the principal duties. It was planned to develop policies in line with the objective of managing sustainable economic and financial operations in compliance with the values of Islamic law and to strengthen the public understanding of Islamic finance.

Reference: (1) Dergipark, *Islamic Banking and Islamic Finance Practices in Indonesia*, 2018; (2) Bank of Indonesia *Sharia Economy and Finance Report 2019*; (3) IFN *Indonesia Report 2020*; (4) ICD Thomson Reuters *Islamic Finance Development Report 2020*

Note: The concept of Participation Banking in Turkey is used instead of Islamic Banking. Participation Banking concept has been preferred in selected countries in order to ensure uniformity in the language of report writing.



Pakistan Participation Banking Sector^{1,2,3,4}

Structure and Functioning of the Sector

In Pakistan, which has the second largest Muslim population in Asia after Indonesia, Islamic banking was officially established in 1977. In 2002, a bank in Pakistan (Meezan Bank) was granted a fully-fledged Islamic bank license for the first time. The Shariah Compliance Certification, which was issued in 2018, contains comprehensive survey and internal and external audit directives for companies. In addition, it emphasizes the requirement for the enterprises which are in compliance with Sharia principles to obtain the approval of the Securities & Exchange Commission of Pakistan (SECP) before carrying out their operations. State Bank of Pakistan is the regulatory authority, and members of the Shariah Advisory Committee which carries out its operations within the body of State Bank of Pakistan consist of Islamic scholars as well as sector experts. AAOIFI Shariah Standards are used in Islamic banking sector.

Islamic Banks and Product Practices

Pakistan has three different banking channels for Islamic banking services, being the fully-fledged Islamic banks, conventional banks with stand-alone Islamic banking branches, and conventional banks with Islamic banking window. There are 22 institutions providing Islamic banking services, being 5 fully-fledged Islamic banks and 17 conventional banks with independent Islamic branches. The first exchange traded fund in Pakistan which is in compliance with Sharia principles was launched in September 2020.

Sectoral Focus and Strategy

As of the end of March 2020, the market share of Pakistan Islamic banking assets in general banking sector reached 15.2% and the aim is to increase the Islamic banking market share to 25% as of 2023. It is also aimed to adopt and apply the precaution standards given by the Islamic Financial Services Board (IFSB). In 2019, having focused on increasing the share of Islamic banking with legal updates and regulatory frameworks, the State Bank of Pakistan made the third revision of its strategic plan for 2019-2025. In January 2020, the State Bank of Pakistan announced its 3rd Islamic Banking Strategic Plan (2019-2025). The aim is to promote the Islamic finance by developing an infrastructure in financial systems for risk sharing for the purpose of introducing a sustainable and sound development stage to Islamic banking and Islamic finance sector; to develop regulations for the purpose of encouraging the products and services for SMEs, takaful, agriculture and micro houses; to complete commercial instruments for the purpose of increasing comprehensiveness; to institutionalize the organizations by increasing their value and to develop qualified human resources in the Islamic finance sector.

Reference: (1) State Bank of Pakistan National Financial Inclusion Strategy 2015; (2) Katılım Finans Magazine, Islamic Banking in Pakistan 2020; (3) IFN Country Analysis Pakistan 2020; (4) ICD Thomson Reuters Islamic Finance Development Report 2020

Note: The concept of Participation Banking in Turkey is used instead of Islamic Banking. Participation Banking concept has been preferred in selected countries in order to ensure uniformity in the language of report writing.



United Kingdom Participation Banking Sector^{1,2,3}

Structure and Functioning of the Sector

Islamic Finance was started to be carried out in UK in the 80s with the introduction of the first murabaha transaction. Al Baraka International which is the first British Islamic Bank was established in 1982. The HM Treasury and the Financial Services Authority (FSA) are among the regulatory authorities in UK. In the early 2000s, UK included the Islamic finance in its financial regulations, especially for the purpose of preventing double taxation, and in 2001, Bank of England constituted an interest-free finance working group within its body. In 2018, Islamic Insurance Association of London prepared guidance principles for takaful practices and determined the framework for constituting Islamic windows which will increase the capacity of insurance and reinsurance products that are in compliance with Shariah.

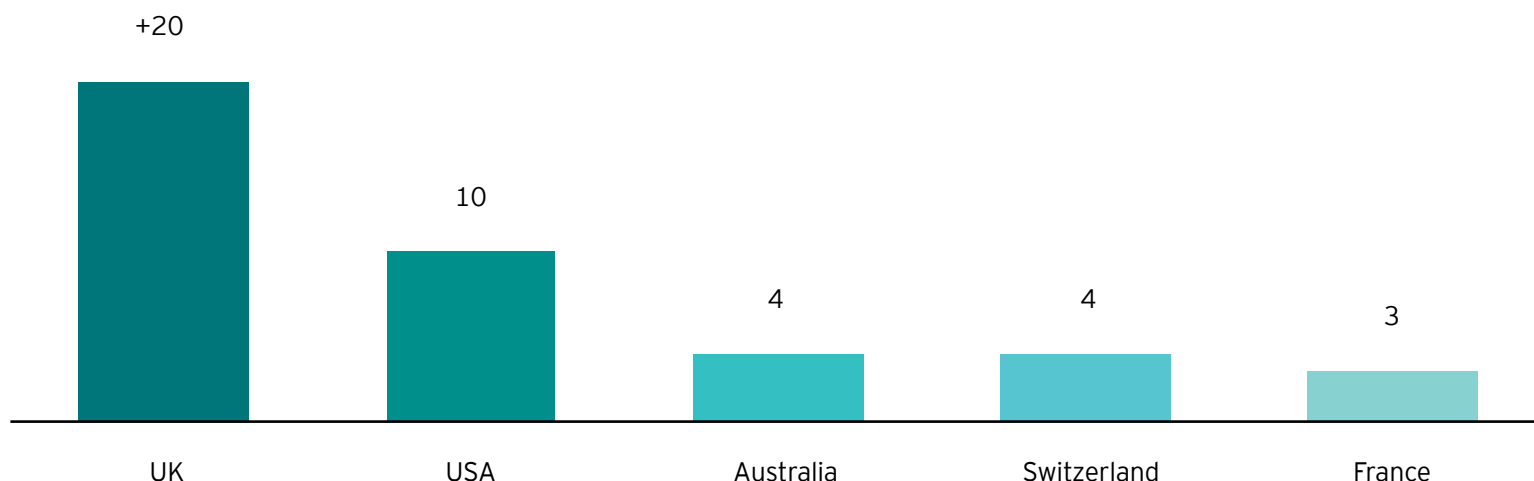
Islamic Banks and Product Practices

In the current situation, there are 20 banks in UK providing Islamic Finance services, 5 of which are in compliance with Islamic banking principles. In UK, conventional banks such as HSBC and Citi Group started to carry out interest-free finance transactions in 2000s. Having issued 257.4 million USD of sukuk as of 2014, UK has been the first Western government which allowed private sector sukuk issuance. Being a leading FinTech center, UK has 27 FinTech companies providing Islamic finance products and ranks 1st in the global Islamic FinTech market.

Sectoral Focus and Strategy

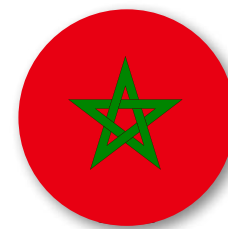
There are 4 professional institutes carrying on business for the purpose of serving the Islamic finance sector, and up to 70 universities and business schools providing contents in the area of Islamic finance within their organization. Having a long-standing background of Islamic banking and finance among western countries, UK aims to develop highest product standards while carrying out practices for the purpose of attracting the investors to the area of Islamic banking and finance, with its network structure consisting of competent professionals.

Graph 1.2.1: Number of Islamic Banks in Western Countries, 2015¹



Reference: (1) UK British Embassy Bishkek Islamic Finance in the UK 2015; (2) IFN Country Analysis, UK 2020; (3) IFN UK Islamic Finance Week Report 2019

Note: The concept of Participation Banking in Turkey is used instead of Islamic Banking. Participation Banking concept has been preferred in selected countries in order to ensure uniformity in the language of report writing.



Morocco Participation Banking Sector^{1,2}

Structure and Functioning of the Sector

In Morocco, the banking law was amended in 2014 and incorporated a title dedicated to participation banks and Sharia Committee for Participation Finance was established in 2015 by the Council of Ulemas, focused on the interest-free banking which enables the performance transactions that are in compliance with Shariah. Certain circulars were issued in 2017, that frame participation banking products, participation windows and investment deposit. In the same year, the Central Guarantee Fund announced that it was planning to provide solutions in compliance with Shariah provisions. In 2018, standards and regulatory requirements were issued to support the interest-free banking. Legal regulations were enacted for the purpose of constituting a broader sukuk structure and facilitating sukuk sales. As of 2019, the Moroccan Parliament approved the act which allowed the insurance companies to establish takaful affiliates.

Islamic Banks and Product Practices

In Morocco, Bank Al-Maghrib granted licenses to 5 fully-fledged participation banks and 3 participation windows. Morocco has first planned to enter into the sovereign sukuk market in 2017, but this plan was postponed until October 2018. The first sukuk practice of the country was carried out in October 2018 at an amount of 107.35 million USD. For the purpose of supporting the interest-free finance industry, the Bank Al-Maghrib planned to establish an inter-Islamic banks market.

Sectoral Focus and Strategy

It is considered that, having displayed the fastest growth rate in Islamic Finance assets in 2019, Morocco will have a rapid growth potential in the upcoming periods as well. Government support has a significant impact on the sector. However, the fact that the country does not have a developed Islamic finance structure and public awareness has not reached to a sufficient level, are presented as the biggest obstacles to the development of the interest-free banking sector.

Reference: (1) IFN Country Analysis Morocco; (2) ICD Thomson Reuters Islamic Finance Development Report 2020

Note: The concept of Participation Banking in Turkey is used instead of Islamic Banking. Participation Banking concept has been preferred in selected countries in order to ensure uniformity in the language of report writing.

1.2 Selected Markets in Global Interest-free Banking

Table 1.2.1: Selected Markets in Global Interest-free Banking

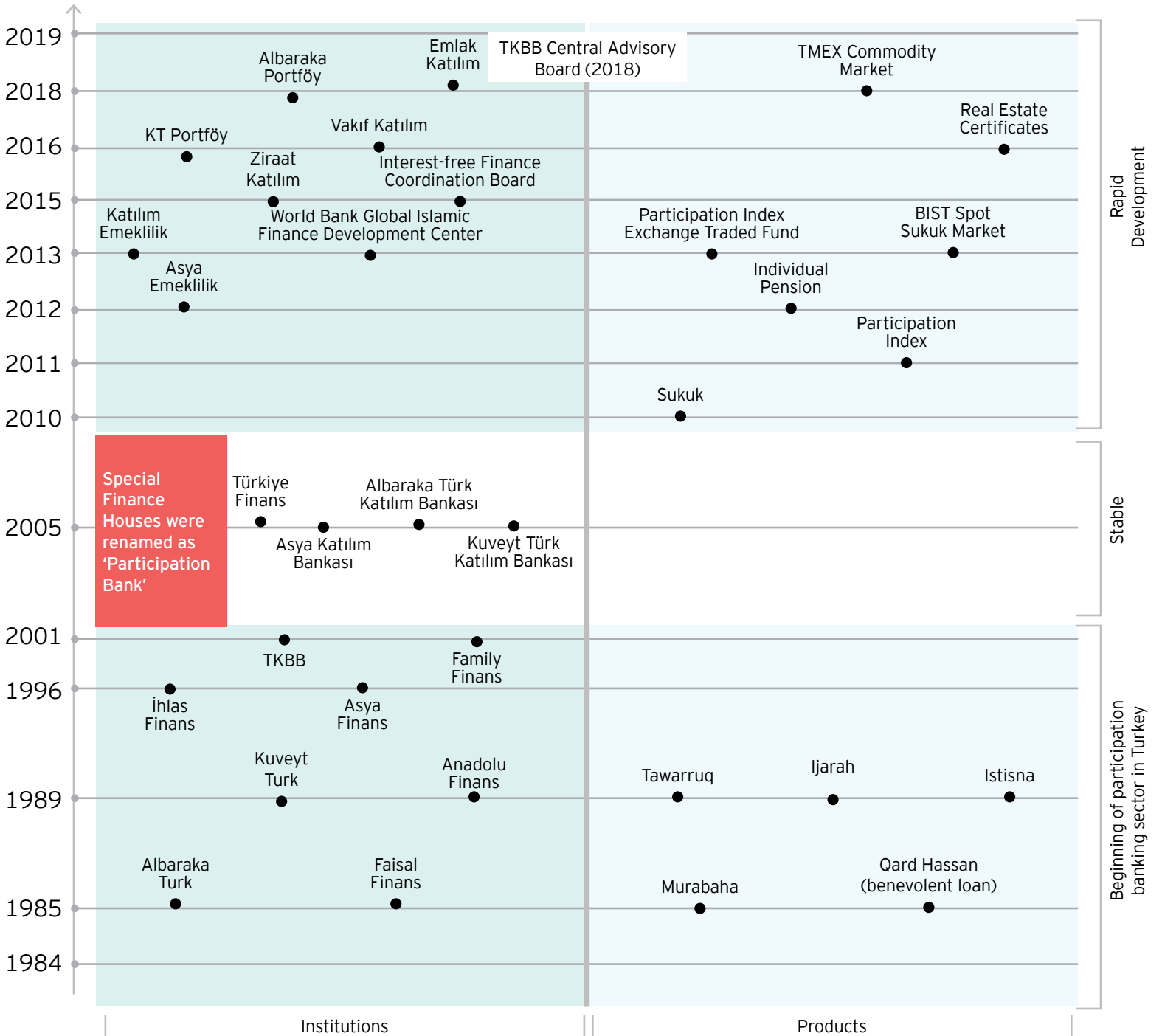
Selected Markets	Establishment Date	Number of Banks	Regulatory Authority	Important Issues
Turkey	1984	6 banks	<ul style="list-style-type: none"> • BRSA • CMB • POA 	<ul style="list-style-type: none"> • The country which grew fastest in the takaful market in 2019 • The country which ranked 2nd in private sector sukuk issuance in 2019 • Participation Banking Strategy Update Report (2021-2025) containing 6 main strategic objectives
Malaysia	1983	16 fully-fledged 12 Islamic banking window	<ul style="list-style-type: none"> • The Shariah Advisory Council of Bank Negara Malaysia (SAC) • Securities Commission Malaysia (SC) 	<ul style="list-style-type: none"> • The country which is leader in green sukuk practice and which carried out the first digital sukuk practice • Ranked 2nd in global Islamic FinTech market and InsurTech application in the area of takaful • A strong and robust system as a result of close collaboration of the government, regulators and ecosystem stakeholders
Indonesia	1992	14 fully-fledged 34 Islamic banking window 196 rural Shariah banks	<ul style="list-style-type: none"> • Indonesia Financial Services Authority (OJK) 	<ul style="list-style-type: none"> • The obligation for the banks with Islamic banking and takaful window models to become a fully-fledged Islamic bank until 2023 • The country which made the highest volume of sukuk issuance, which is the leader in sukuk practice, and which carried out the first blockchain-based sukuk practice • Preparation of a joint Fintech development roadmap between Securities Commission Malaysia (SC) and Indonesia Financial Services Authority (OJK) • 2019-2024 Islamic Economics Master Plan
Pakistan	1977	5 fully-fledged 17 Islamic banking window model	<ul style="list-style-type: none"> • Securities & Exchange Commission of Pakistan (SECP) • State Bank of Pakistan, Shariah Advisory Committee 	<ul style="list-style-type: none"> • The objective of achieving an Islamic banking market share of 25% as of 2023 • 3rd Islamic Banking Strategic Plan (2019-2025) of State Bank of Pakistan
United Kingdom	1982	20 banks, 5 of which are fully-fledged	<ul style="list-style-type: none"> • HM Treasury • Financial Services Authority (FSA) 	<ul style="list-style-type: none"> • The first Western government which allowed private sector sukuk issuance • The country which ranks 1st in global Islamic FinTech market • A network structure consisting of competent professionals and high product standards
Morocco	2014	5 fully-fledged 3 Islamic banking window	<ul style="list-style-type: none"> • Council of Ulemas • The Bank Al-Maghrib 	<ul style="list-style-type: none"> • The country which grew fastest in Islamic Finance assets in 2019 • Significant contribution of government support in private sector

1.3 DEVELOPMENT OF PARTICIPATION BANKING IN TURKEY

Establishment of participation banking sector in our country dates back to 35 years ago. For the first time, Albaraka Türk was established in 1984 as a Special Finance House (SFH) and Faisal Finans was established right thereafter. In 2001, the Participation Banks Association of Turkey was established with its today's name for the purpose of representing the SFHs. A milestone for the SFHs

has been the year 2005 when they gained a 'Bank' status and were named as a 'Participation Bank'. As of 2010, interest-free banking sector started to get over the effects of the crisis. In 2018, TKBB Central Advisory Board was established. Ziraat Katılım, Vakıf Katılım and Emlak Katılım banks entered the market as public participation banks in 2015, 2016 and finally 2019, respectively.

Turkish Participation Banking Ecosystem Development Map



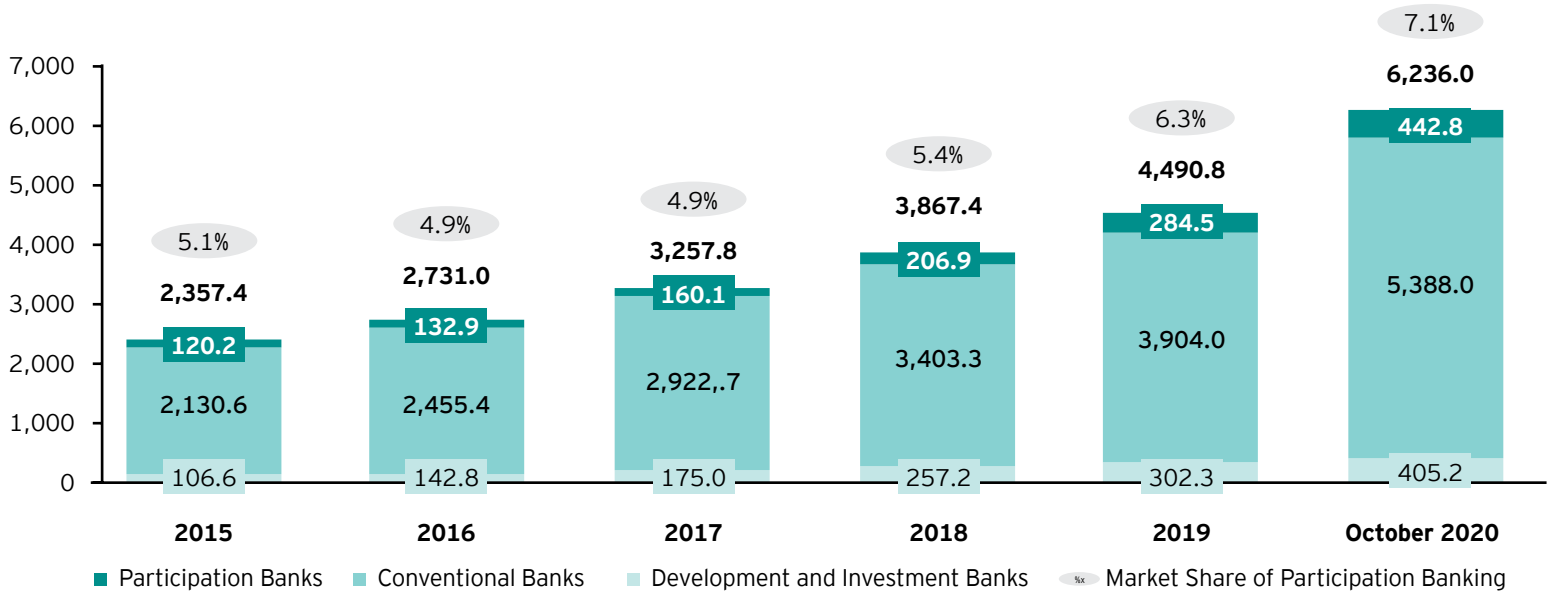
1.3 Development of Participation Banking in Turkey

Growth Figures and Market Shares of Turkish Participation Banking Sector

After it was noticed that participation banks are more resistant to financial crises, the development of the sector gained momentum in the aftermath of the economic crisis of 2008 in our country as well as across the world. Since participation banking triggers a spirit of partnership that is aimed at risk-sharing rather than the creditor-debtor relationship that is already existing in the area of investment activities, it has positively affected the perception

about the system. Having received the government's support as well, the sector entered a rapid growth trend starting from 2008, and its growth trend became stable as of 2014. The growth gained momentum once again starting from 2018 and the market share which was 6.3% in 2019 reached 7.1% as of the end of October 2020. Compound Annual Growth Rate of the participation banking sector assets in the period from 2015 to 2019 was recorded as 24.0%.

Graph 1.3.1: Total Assets of Participation Banking and Its Share in Total Banking Assets (million Turkish Liras, %)¹

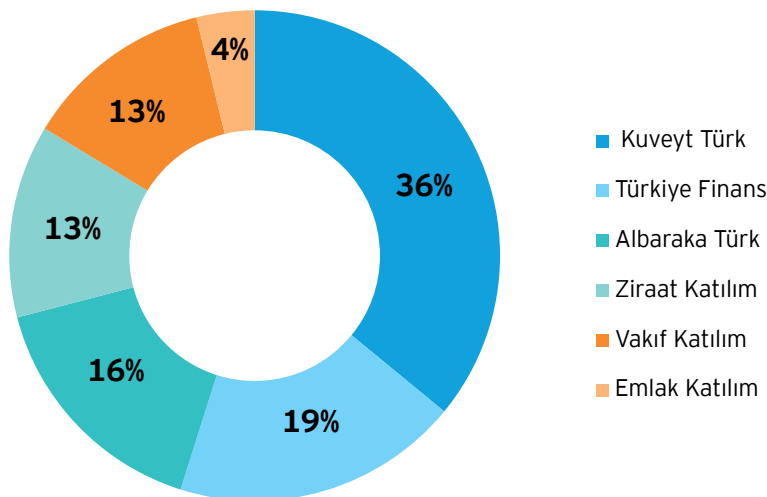


1. Banking sector assets size consists of the total of conventional banks, participation banks and development & investment banks

Participation Banking 2015-2019 CAGR: +24%

Conventional Banking 2015-2019 CAGR: +16.3%

Graph 1.3.2: Market Shares of Turkish Participation Banks, 3rd Quarter of 2020²



In Turkey, 6 banks are carrying on business in the participation banking sector. These banks are Albaraka Türk, Kuveyt Türk, Emlak Katılım, Türkiye Finans, Ziraat Katılım and Vakıf Katılım. While Kuveyt Türk Katılım Bankası is the bank with the largest market share in the sector with 36% as of the 3rd quarter of 2020, it is followed by Türkiye Finans with 19% and Albaraka Türk with 16%.

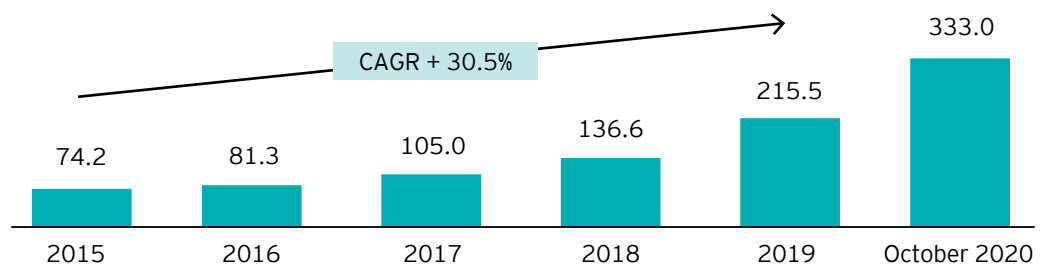
Reference: (1) Monthly Bulletin of BRSA; (2) TKBB Bank Comparison Report
CAGR: Compound Annual Growth Rate

Key Financial Performance Data of Participation Banking



When the volume of the funds collected are examined, the impact of the increasing growth since 2009 can be seen. It is known that, due to the increase of both the number of customers and transaction volume of participation banks in the participation funds collected, the average compound growth rate for 5 years from 2009 to 2014 was recorded as 19%. The average compound growth rate for the period from 2015 to 2019 was recorded as 30.5%. This rate proves the increase expected in the participation fund accounts, with the increase of the number of banks in the sector and the access to participation banks after 2014.

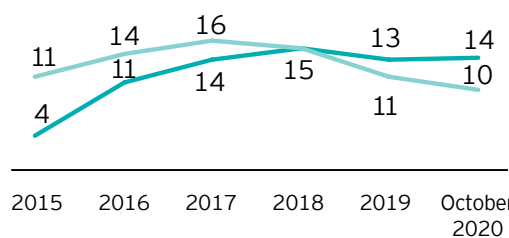
Graph 1.3.3: Funds Collected (million Turkish Liras)¹



When the profitability figures of the sector are examined, it is seen that the return on equity of the banking sector was higher than that of the participation banks until 2017. It is noted that return on equity got closer to that of conventional banks in 2017, became equal to it in 2018, and became higher than the sectoral profitability in 2019.

When the return on average assets is examined, it is seen that the banking sector and participation banking got very close to each other for the last 5 years.

Graph 1.3.4: Return on Equity (ROE)¹



Graph 1.3.5: Return on Assets (ROA)¹

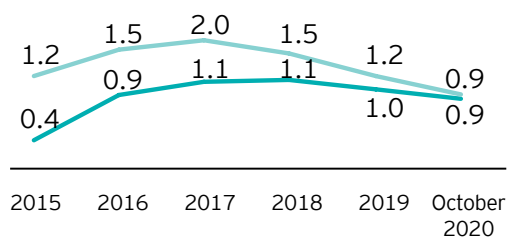


Table 1.3.1: Capital Adequacy Standard Ratio by Bank Type (%)¹

	2018	2019	October 2020
Banking Sector	17	18	19
Conventional Banking	17	18	19
Participation Banking	16	18	19

Reference: (1) Monthly Bulletin of BRSA
CAGR: Compound Annual Growth Rate

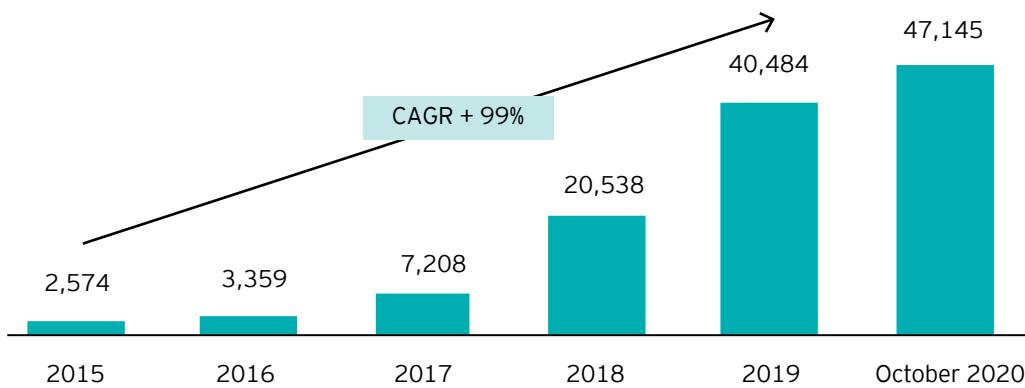
1.3 Development of Participation Banking in Turkey

Development of the Sukuk Product in Turkey

With the growth of participation banking, sukuk issuance which has a great development potential in our country has also started to draw attention. In 2010, «the Communiqué on the Principles for Sukuks and Asset Lease Companies» Serial: III No: 43 of the Capital Markets Board set forth regulations for fund provision by sukuk issuance. In 2011, transactions for sukuk issuance were allowed to be exempt from taxes and fees such as stamp tax, income tax and notary fees etc. In 2013, sukuk issuances based on Contract of Work (istisna), Purchase and Sale (murabaha), Capital Partnership (musharakah) and Labor-Capital Partnership (mudarabah) were allowed.

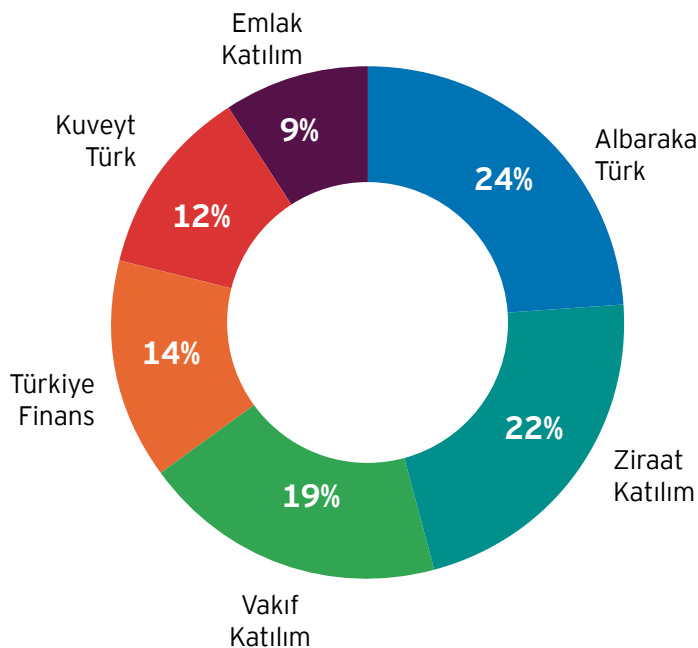
The first sukuk issuance in Turkey was made in 2010 by Kuveyt Türk Katılım Bankası and the first sukuk issuance at an amount of 100 million USD for a 3-year term received high demand. One year later, Kuveyt Türk Katılım Bankası again made a sukuk issuance at an amount of 350 million USD for a 5-year term and these sukuks started to be traded in London Stock Exchange. As of 2017, gold-based sukuk issuance was started. As of the end of November 2020, sukuk issuances of participation banks exceeded 47 billion Turkish Liras.

Graph 1.3.6: Sukuk Issuance in Turkey by Year (million Turkish Liras)¹



In 2012, sukuk issuance at a value of 1.5 billion USD for a 2-year term was made by the treasury and large amounts of demands were received from international markets. Following the sukuk issuance of Undersecretariat of Treasury, other participation banks also increased the amount of their sukuk issuances. Starting from 2014, sukuk issuance increased with great momentum and its growth rate was recorded as 99% from 2015 to 2019.

Graph 1.3.7: Total Sukuk Issuance Volumes by Bank, November 2020¹



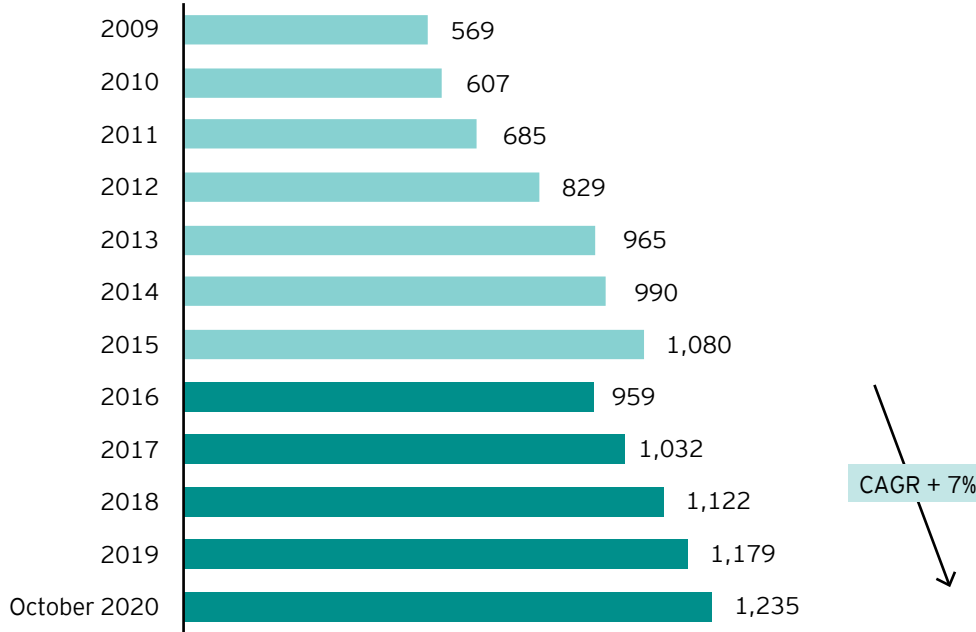
When total sukuk issuance volumes as of the end of November 2020 are examined, Albaraka Türk ranks first with 11,382 million Turkish Liras. It is followed by Ziraat Katılım with 10,350 million Turkish Liras.

As a bank which was newly established in 2019, Emlak Katılım Bankası made sukuk issuance of 4,286 million Turkish Liras.

Reference: (1) Sukuk Issuance Volumes Report of TKBB
CAGR: Compound Annual Growth Rate

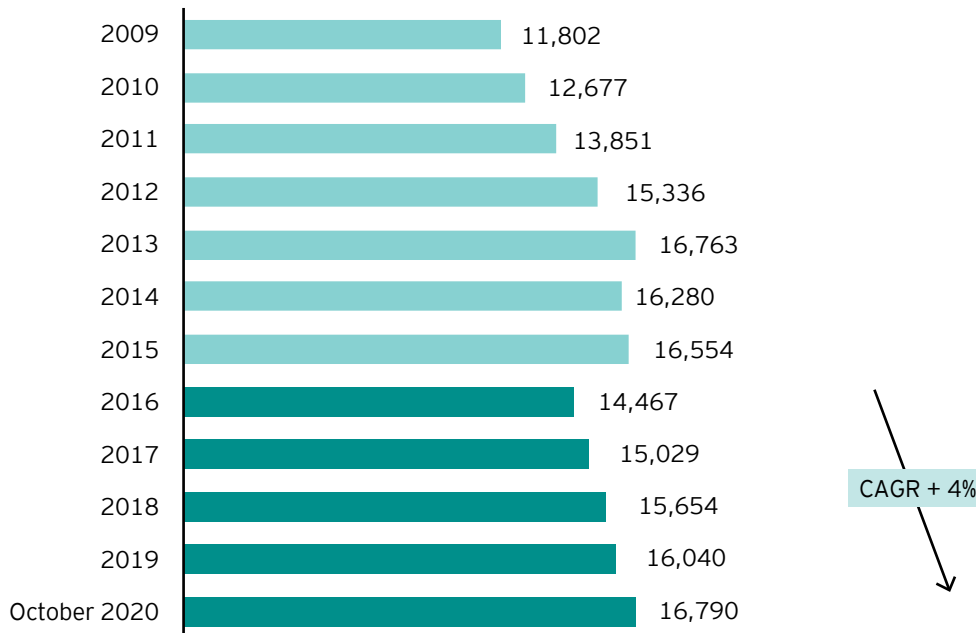
Structural Development of Turkish Participation Banking

Graph 1.3.8: Total Number of Branches of Participation Banks¹



As of the 4th quarter of 2019, there were 6 participation banks in our country and 1,179 branches belonging to these 6 banks. As of the end of October 2020, total number of branches reached 1,235. While it is seen that the number of branches of banks showed an annual average increase of 12.9% starting from 2009, this growth rate decreased and was recorded as 2% in the 5-year period after 2015.

Graph 1.3.9: Total Number of Staff of Participation Banks¹



Number of staff also showed an increase from 2009 to 2014 and grew at an annual average rate of 7.4%. It decreased by 1% in the 5-year period after 2015 and total number of staff of participation banks was recorded as 16,040 as of the 4th quarter of 2019. The decrease in the number of staff shows that the digitalization and mobile banking trend influenced the participation banking sector as well.

1. In 2016, a participation bank carrying on business in the sector ceased its operations.

Reference: (1) Monthly Bulletin of BRSA
CAGR: Compound Annual Growth Rate



2

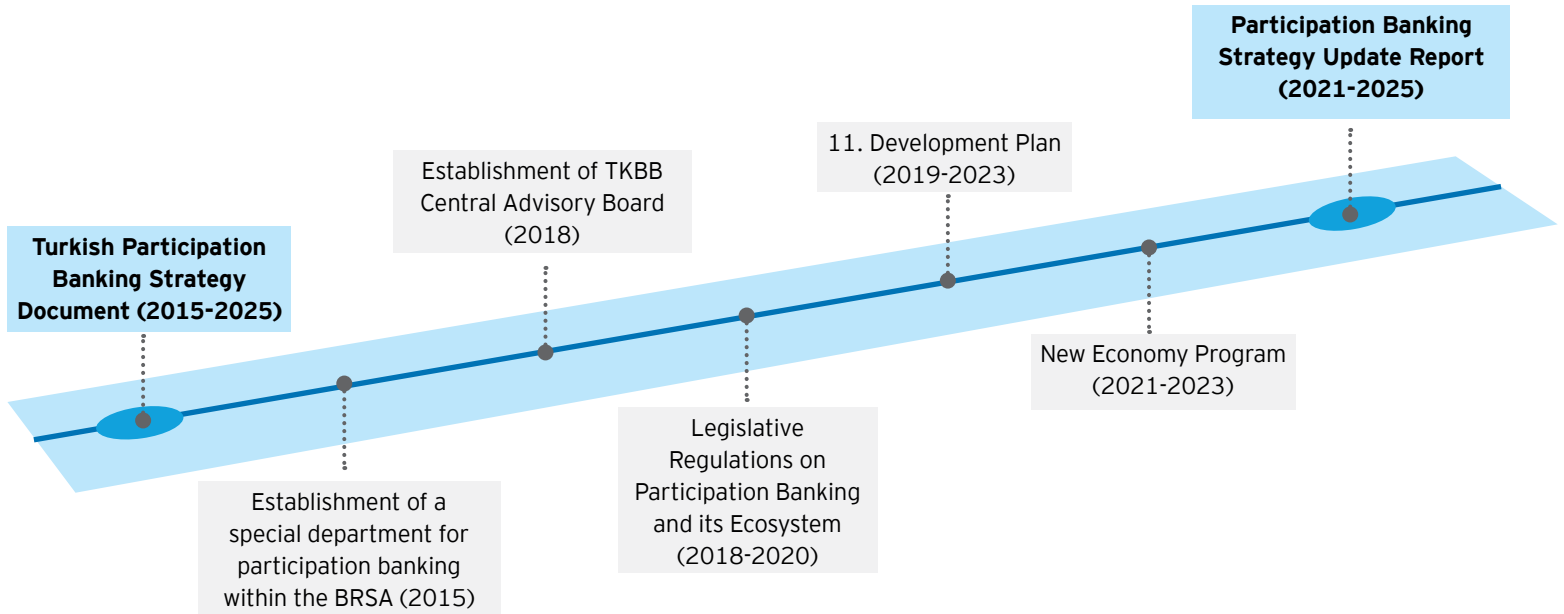
Vision and Strategic Objectives of Participation Banking in Turkey

2.1 STUDIES FOR SETTING THE VISION AND OBJECTIVES

Various studies were made to set the vision and objectives for participation banking in Turkey. General scope of these studies has been aimed to improve the perception in the sector, to examine the existing and new practices which will set an example, and to

determine the actions to be taken for the development and growth of the sector by taking into account the economic, social and legal conditions as well.

Studies Made in the Sector in Recent Years



Important Legislative Frameworks on Participation Banking and its Ecosystem¹

Participation Banking

- ▶ Special Finance Houses were established with the decree which was issued in 1983, no. 83/7506 dated 16.12.1983.
- ▶ Having entered into service in 1985, Special Finance Houses were included in the scope of the Banking Law with the same name, with an amendment made to this law in 1999.
- ▶ Article 20/6 of the Banking Law was amended with the Law no. 4672 which was enacted on May 12, 2001 and an association named the Association of Special Finance Houses (ASFH) was established and granted the authority to constitute an assurance fund.
- ▶ Special Finance Houses were included within the scope of the Banking Law which was enacted in 2005, and the term 'Special Finance House' was abolished and the term 'Participation Bank' was put into effect in accordance with the law no. 5411.
- ▶ In accordance with the law no. 5411, the Association of Special Finance Houses (ASFH) was renamed as the Participation Banks Association of Turkey

Legislative Infrastructure

- ▶ With the Board Decision no. 7736 dated 22.02.2018, the Participation Banks Association of Turkey decided to constitute a committee to set the professional principles and standards for participation banking.
- ▶ With the decision no. 253 dated 02.04.2018 of the Board of Directors of TKBB, the procedures and principles for the Central Advisory Board to be constituted within the body of TKBB were set.
- ▶ With the "Regulation on Introduction of an Amendment to the Regulation on Donations and Aids to be Made by Banks, and Institutions that are Subject to Consolidated Audit", which entered into force by being published on the Official Gazette of the Republic of Turkey no. 30757 dated 27.04.2019, the donation transactions to be made by being limited to those incomes earned on a mandatory basis for reasons attributable to legislation and which are not in compliance with the professional principles and standards of participation banking were allowed to be exempt from the donation and aid limits.
- ▶ The "Communiqué on the Compliance with the Interest-free Banking Principles and Standards" (Compliance Communiqué) was published on the Official Gazette of the Republic of Turkey no. 30888 dated 14.09.2019.
- ▶ Special Finance Houses were included within the scope of the Banking Law which was enacted in 2005, and the term 'Special Finance House' was abolished and the term 'Participation Bank' was put into effect in accordance with the law no. 5411.
- ▶ In accordance with the law no. 5411, the Association of Special Finance Houses (ASFH) was renamed as the Participation Banks Association of Turkey (TKBB).

Funds Collected

- ▶ The "Regulation on Introduction of an Amendment to the Regulation on Procedures and Principles regarding the Acceptance and Withdrawal of Deposits and Participation Funds and regarding the Deposits, Participation Funds, Loans and Receivables Which are Lapsed" was published on the Official Gazette of the Republic of Turkey no. 30569 dated 18.10.2018.
- ▶ With the "Regulation on Introduction of an Amendment to the Regulation on Procedures and Principles regarding the Classification of Loans and the Provisions to be Set Aside for Them", which was published on the Official Gazette of the Republic of Turkey no. 30569 dated 18.10.2018, profit-balancing reserves were excluded from the scope of the Provisions Regulation and re-regulated under the Deposits Regulation.
- ▶ With the "Regulation on Introduction of an Amendment to the Regulation regarding Loan Transactions of Banks", which was published on the Official Gazette of the Republic of Turkey no. 30666 dated 25.01.2019, the development and investment banks were granted the authority to make interest-free funds available, being limited to the funds provided by them exclusively by interest-free methods.

Sukuk

- ▶ The "Communiqué on Principles regarding Sukuks and Asset Lease Companies" Serial: III No: 43, which was issued by the Capital Markets Board, was published on the Official Gazette of the Republic of Turkey no. 27539 dated 01.04.2010.
- ▶ The legal framework on taxation of sukuks was regulated by the law no. 6111 which was published on the Official Gazette of the Republic of Turkey dated 13.02.2011.
- ▶ With the "Sukuk Communiqué" no. III-61.1 of the Capital Markets Board, was published on the Official Gazette of the Republic of Turkey no. 28670 dated 07.06.2013, companies were allowed to procure funds from capital markets by way of sukuk issuance.

Takaful

- ▶ In 2017, the "Regulation on Working Procedures and Principles of Participation Insurance" of the Undersecretariat of Treasury was published on the Official Gazette of the Republic of Turkey.
- ▶ In 2020, the "Regulation on Insurance and Individual Pension Operations Under Participation Principles" of the Insurance and Private Pension Regulation and Supervision Agency was published on the Official Gazette of the Republic of Turkey.

Accounting

- ▶ With the "Communiqué on Introduction of an Amendment to the Communiqué regarding Uniform Chart of Accounts to be Implemented by Participation Banks", which was published on the Official Gazette of the Republic of Turkey no. 30569 dated 18.10.2018, the Uniform Chart of Accounts for the wakala-based participation accounts was amended.

Reference: (1) TKBB Legislation History

Turkish Participation Banking Strategy Document (2015-2025)¹

Turkish Participation Banking Strategy Document (2015-2025), which was prepared in 2015 in partnership with TKBB, was prepared for the purpose of setting the vision and objectives of participation banking in Turkey together with participation banks, TKBB and sector stakeholders. Within the scope of this study, meetings were held with the relevant stakeholders and the general outlook for the participation banking and its stakeholders was specified. As a result of the meetings held and studies carried out, actions and tasks to be taken to achieve the strategic objectives of participation banking in Turkey were determined and a roadmap was prepared for strategic objectives.

Establishment of TKBB Central Advisory Board (2018)²

TKBB Central Advisory Board was established with the decision no. 7736 dated 22.02.2018 of the Banking Regulation and Supervision Agency (BRSA). With the decision no. 253 dated 02.04.2018 of the Board of Directors of TKBB, the Communiqué on Formation, Duties and Working Procedures and Principles of TKBB Central Advisory Board was enacted.

With the decision dated 02.05.2018 of the Board of Directors of TKBB, Rahmi Yaran (Ph.D.), Hasan Hacak (Ph.D.), Abdullah Kahraman (Ph.D.), Ahmet Yaman (Ph.D.) and Temel Haziroğlu were appointed as the members of TKBB Central Advisory Board and this appointment was approved with the decision no. 7810 of BRSA.

TKBB Central Advisory Board carries out its administrative and scientific operations based on the "Internal Directive on Working Procedures and Principles of TKBB Central Advisory Board", which was adopted with the decision no 260/2 dated 27.06.2018 of the Board of Directors of TKBB.

Annual operations of the Board include the decisions and standards contemplated for the needs of the sector, the workshops which bring together the academia and sector stakeholders, and the studies carried out in cooperation with international organizations.

At meetings that are held regularly, the requests and questions received via TKBB from participation banks, public institutions and organizations, professional organizations that are in the status of public institutions, and other organizations are decided and opined on. At meetings that are held, studies on standards regarding the sector's needs are also carried out.

The standards that were issued in 2019 or are in the process of being issued are given below:

- ▶ In 04.10.2019, the final form of "tawarruq" standard was submitted to TKBB General Secretariat for approval.
- ▶ Formation of the standard on "murabaha" is ongoing. Theoretical studies in this context have been completed, and interviews with academia and sector stakeholders are ongoing.
- ▶ In 2020, the final form of the standard for "Issuance and Trading of Share Certificates" was issued.

Eleventh Development Plan (2019-2023)³

It is specified that the Eleventh Development Plan (2019-2023) which is the first development plan of the Presidential Government System will be a fundamental roadmap that will set the development vision of Turkey and bring the international position of the country to a better point. The plan is aimed at forming a framework for the financial markets that will meet the real sector's financing needs

at low costs and that will also support the growth objectives of the country by using different financial instruments. With the role to be played by it in this context, the Eleventh Development Plan will support Turkey's objective of being an important global player and finance center. In this context, capital markets will be developed, financial technology ecosystem will be strengthened, and the weight of the interest-free finance in the sector will increase. Within this scope;

- ▶ The position of the interest-free finance system in our country's finance system will be strengthened, the product and service range and human resources in the area of interest-free finance will be developed, and instruments and mechanisms that will support the policy development processes will be constituted.
- ▶ For the purpose of allowing the participation banking to become widespread, regulations will be made for application of new business model / window system.
- ▶ By further informing the public regarding the functioning of interest-free finance system and financial products, awareness on interest-free finance system will be increased.
- ▶ An integrated data reporting infrastructure will be constituted in the area of interest-free finance.
- ▶ Regulations will be made to increase the product and service range of interest-free finance system.
- ▶ In order that commodity murabaha transactions can be carried out domestically, platforms based on sukuk, electronic warehouse receipt or share certificate portfolio will be constituted.
- ▶ Use of sukuk issuances in the financing of public investments will be increased.
- ▶ Legal framework will be revised in order to provide implementation convenience in the use of special purpose vehicles in sukuk issuances.
- ▶ Interest-free finance audit standards will be constituted.
- ▶ Interest-free finance corporate governance system will be established and harmonized with international practices.
- ▶ Legislative and corporate structure encouraging the participation insurance will be developed and extended to address all risk groups.
- ▶ A participation reinsurance fund will be established to prevent the flow of the country's funds to abroad.

New Economy Program (2021-2023)⁴

The vision and objectives for participation banking in Turkey were announced by the Ministry of Treasury and Finance in the New Economy Program for the period from 2021 to 2023. To ensure that Turkey will be among the leading countries in the participation banking ecosystem and reinsurance system, it was planned to constitute a participation banking ecosystem strategy document within the framework of best practice examples and internationally-accepted interest-free finance principles, which takes into account the needs of the sector and vulnerabilities of investors. In this respect, the New Economy Program will;

- ▶ Ensure the monitoring and reporting of the policies constituted for the participation finance sector, strengthen the cooperation between the regulatory and supervisory institutions of this sector and the sector's organizations, and increase the efficiency of TKBB Central Advisory Board. Compliance with international standards will be achieved in the area of participation finance and participation insurance will be made widespread.

Reference: (1) Turkish Participation Banking Strategy Document (2015-2025); (2) TKBB Central Advisory Board Activity Report 2019; (3) Eleventh Development Plan of the Strategy and Budget Authority of the Presidency of the Republic of Turkey; (4) New Economy Program (2021-2023)

2.2 VISION, MISSION AND STRATEGIC OBJECTIVES OF TURKISH PARTICIPATION BANKING

Table 2.2.1: Methodology for Updating the Participation Banking Strategy Roadmap



Turkish Participation Banking Strategy Update report 2015-2025 followed a 3-phase approach, being Participation Banking Sector Research, Turkish Participation Banking Market Size and Future Forecast, and Strategy Update practices. For the purpose of becoming familiar with the ecosystem and identifying the stakeholders, researches were made by referring to domestic and foreign reports and interviews were made with the stakeholders in participation banking ecosystem. More than 20 stakeholders in both the public and private sector were interviewed. Participation banks, participation insurance companies, Turkish Mercantile Exchange (TMEX), Istanbul International Finance Center (IFC), Presidential Finance Office, the Ministry of Treasury and Finance, Banking Regulation and Supervision Agency (BRSA), Insurance Association of Turkey (IAT), Turkish Stock Exchange Borsa Istanbul (BIST), Capital Markets Board (CMB), Export Credit Bank of Turkey (Eximbank), and Marmara University Institute of Islamic Economics and Finance (MUIIEF) are among the institutions which were interviewed.

In line with the participation banking’s objective of achieving a market share of 15% in Turkish banking sector, which was set in the Turkish Participation Banking Strategy Document (2015-2025) and which is still applicable in the Participation Banking Strategy Update Report (2021-2025), participation banking market size projections were made. The vision, mission and strategic objectives which were set in the Turkish Participation Banking Strategy Document (2015-2025) were reviewed with the ecosystem stakeholders and current status of tasks were assessed. New strategic objectives and actions were set and roadmap and responsibility matrix were constituted. In accordance with the 3-phase approach, 10 strategies and 23 actions were set under the 6 main strategic objectives.

The principal system players and stakeholders which will contribute to the development of Turkish Participation Banking sector are as follows:

Table 2.2.2: The Principal System Players and Stakeholders of Turkish Participation Banking Sector



Vision and Mission of Turkish Participation Banking Sector

Vision

The participation banking sector's achievement of a market share of 15% as of 2025 and becoming able to provide world-class financial products and services.

Mission

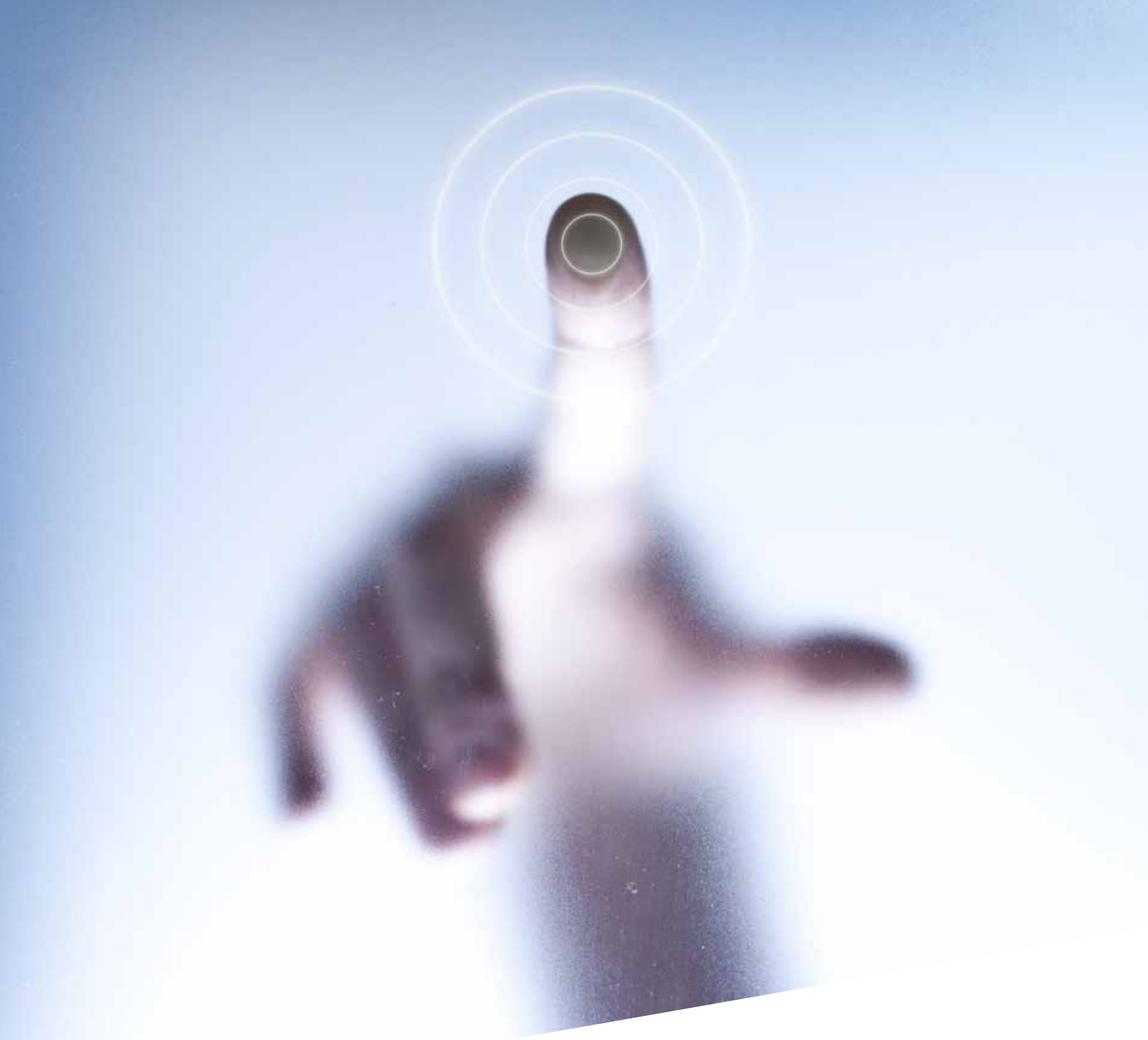
To ensure a healthy and sustainable development of participation banking in Turkey, the TKBB's mission is;

- ▶ To develop and improve product range and service quality,
- ▶ To improve corporate communication, perception and reputation management,
- ▶ To improve education related activities, human resources and certificate programs,
- ▶ To develop legislation, standards and regulations related to the principles of participation banking,
- ▶ To support all efforts aiming to make Istanbul a leading financial center.

Main Strategic Objectives of Turkish Participation Banking

6 main strategic objectives constituting the framework of the actions and strategies of Participation Banking Strategy Document were set.

- ▶ Communication
- ▶ Ecosystem
- ▶ Product Range
- ▶ Standards and Governance
- ▶ Digital
- ▶ Competency Building

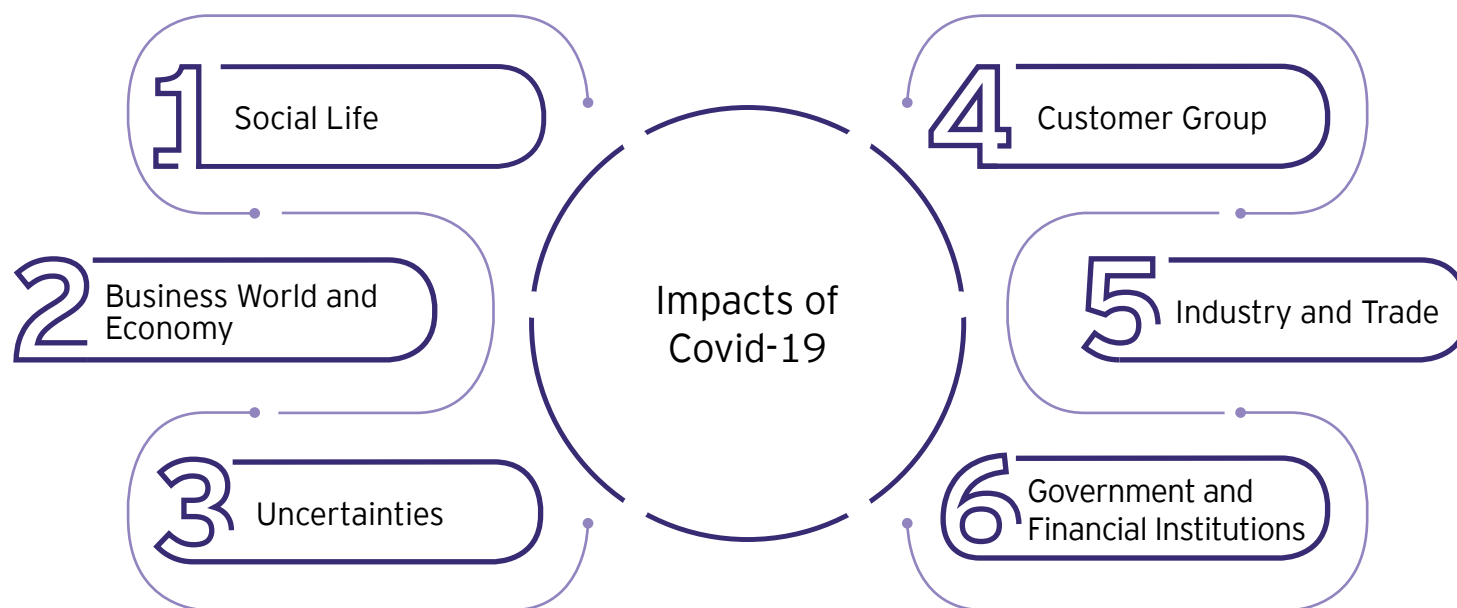


3 Important Areas for Vision and Strategic Objectives

3.1 IMPACTS OF COVID-19 PANDEMIC ON THE BANKING SECTOR

General Impacts of Covid-19 Pandemic¹

The Covid-19 pandemic which broke out in late 2019 in the city of Wuhan of China made social and economic impacts globally and significant changes were seen in the operating models of companies and in consumer trends.



In terms of the business world and economy, differentiations occurred in economic dynamics with the impact of the shock that was experienced in supply and demand. It was observed that access to cash flow and loan in industry and trade became difficult due to uncertainties experienced on a global scale and governments carried out solution-oriented practices to protect economic and social stability.

Shortage of Demand	Shortage of Supply	Stable	Normal Growth	Rapid Growth
<ul style="list-style-type: none"> ▶ Travel ▶ Hotel Management ▶ Sports and empirical ▶ Luxury retail ▶ Personal care services ▶ Media and entertainment 	<ul style="list-style-type: none"> ▶ Utilities ▶ Health ▶ Consumer products ▶ Supermarkets ▶ Pharmaceutical Products 	<ul style="list-style-type: none"> ▶ Internal company investments and initiatives 	<ul style="list-style-type: none"> ▶ Banking ▶ Insurance ▶ Telecommunication 	<ul style="list-style-type: none"> ▶ Cloud services (such as e-learning, games and e-sports etc.) ▶ E-commerce ▶ Online logistics ▶ Delivery services

Reference: (1) EY Covid-19 Briefing Customer & Growth 2020

3.1 Impacts of Covid-19 Pandemic on the Banking Sector

Practices of Banks Against the Impacts of Covid-19¹

In the economic environment which changed in Covid-19 period, banks carried out practices focused on providing products and services to customers through correct channels, adapting to new working models, and constituting robust organizations.

1. Adopting the Digitalization Process

With Covid-19 pandemic, customer preferences will continue to change and banks will be forced to meet the expectations.

The banking sector contributes to the efforts of retail banking and corporate banking customers to focus on productive economic activities, for the purpose of assisting them in recovering from the economic impacts of Covid-19. The digitalization process is expected to enable the retail banking and corporate banking customers to correctly manage their financial needs. The changes in the banking branch and office structures observed in the Covid-19 period quickened the banking sector's transition to digital services and customers seem to have adapted themselves to these changes.

In the Covid-19 period, while banks increased their digital competencies, they also got the opportunity to provide more customized services and to establish sounder relationships in all their channels by means of systematic data collection and interpretation. From an holistic perspective, it has become evident that development of such digital competencies that enable the services needed by customers (call center, video conference, virtual assistants, or dedicated teams) to be provided prudently is a significant factor. From the viewpoint of digitalization process, it is of critical importance for banks to correctly understand the needs of customers. The most important issues for banks to consider in the aftermath of Covid-19 will be about how they protect their customers by way of digital services and how they will continue to provide customized services to the customers. Customer experience and human interaction as well as digital access and literacy are expected to be the main focus points to consider for the purpose of encouraging the adoption of digital banking and sustaining its use.

2. Designing Products for the New Normal

After the period of Covid-19 pandemic, the banking sector should review its products and services and plan such practices aimed at meeting the customer expectations.

Services which will meet the financial needs of corporate and retail banking customers in the short term are expected to be the main focus points. It is important for banks to provide reliable consultancy services to their customers by way of improved risk management and analytical competencies and to provide innovative solutions aimed at ensuring that companies can successfully overcome the crisis period. It is a sensitive issue to focus on customer data that are used in the solutions prepared for the purpose of providing an end-to-end customized customer experience and to inform the customers of the fact that data are used fairly, appropriately and transparently to improve their experience regarding the solutions.

In accordance with EY Future Consumer Index, it is specified that customer behaviors have changed in consumer banking:

1 It is specified that, although the customers' perception of banks, products and services changed, this circumstance might not be permanent.

2 It is emphasized that the habit of using cash will disappear.

3 It is specified that responsible banking will be more important than ever.

4 It is emphasized that banking customers will demand more flexibility and security with regard to the products and services.



3. Working Order in the New Normal

With the Covid-19 pandemic, the transition of banks to hybrid working models and the permanence of this circumstance are among the options that are considered.

With the changing customer needs and expectations, changes occurred in the working order of banks. Most of the leading organizations in the banking sector specified that remote working has unexpectedly become more effective. Even if certain departments of banks followed policies of gradually returning to office working, it is seen that a great majority of employees might permanently continue to work remotely. This approach revealed the requirement for banks to make feasibility studies for hybrid working models.

4. Operation Models After the Covid-19 Pandemic

With the Covid-19 pandemic, emergence of a low-margin operation environment caused banks to include the issues of restructuring and cost optimization in their agenda.

The fact that with the Covid-19 pandemic banks increased their loan limits on a global scale and distributed various government incentive packages to customers caused the emergence of additional demands on the existing working order of banks. This circumstance that was experienced caused the emergence of additional investments while scaling up according to demand.

At the end of the pandemic, banks will, instead of resuming their former operating model, place importance on increasing their investments for end-to-end digitalization and critical process automation and strengthening their productivity earning and resilience. This period provided banks with the opportunity to improve themselves and caused them to question the ways of achieving success with zero delay, zero touch and zero paperwork.

With the emergence of new operating and customer interaction models, re-design of control processes became a critical agenda item. With the Covid-19 pandemic, banks got the opportunity to determine the operations where controls are made manually and to ensure automation of their processes.

Turkish Banking Sector and the Covid-19 Pandemic¹

The Turkish Banking Sector where 34 deposit banks, 13 development and investment banks and 6 participation banks carry out operations has been a sector that closely experienced the impacts of Covid-19 pandemic.

While the impacts of the Covid-19 pandemic have varied depending on the nature of the portfolios managed by financial institutions, the following basic scenarios are taken into account.

- ▶ SME banking being affected to a large extent,
- ▶ Banks with low performance being in need of financial assistance, and emergence of consolidation potential for large organizations,
- ▶ With the pandemic period, banks beginning to focus on their main operations,
- ▶ With the decrease of transaction volumes, reduction in revenues of banks and difficulties in collection of loan repayments,
- ▶ Increase of deposits in banking sector coming to a standstill due to government incentives.

Reference: (1) EY Parthenon Strategic Talk Track Financial Services 2020

3.1 Impacts of Covid-19 Pandemic on the Banking Sector

Participation Banking and Covid-19 Pandemic¹

It is considered that the Covid-19 pandemic constituted an opportunity for participation banks in terms of diversification and expansion of the sector. When the problems experienced by conventional banks in this period are taken into consideration, it is seen that there are some factors that will cause participation banks to be less affected:

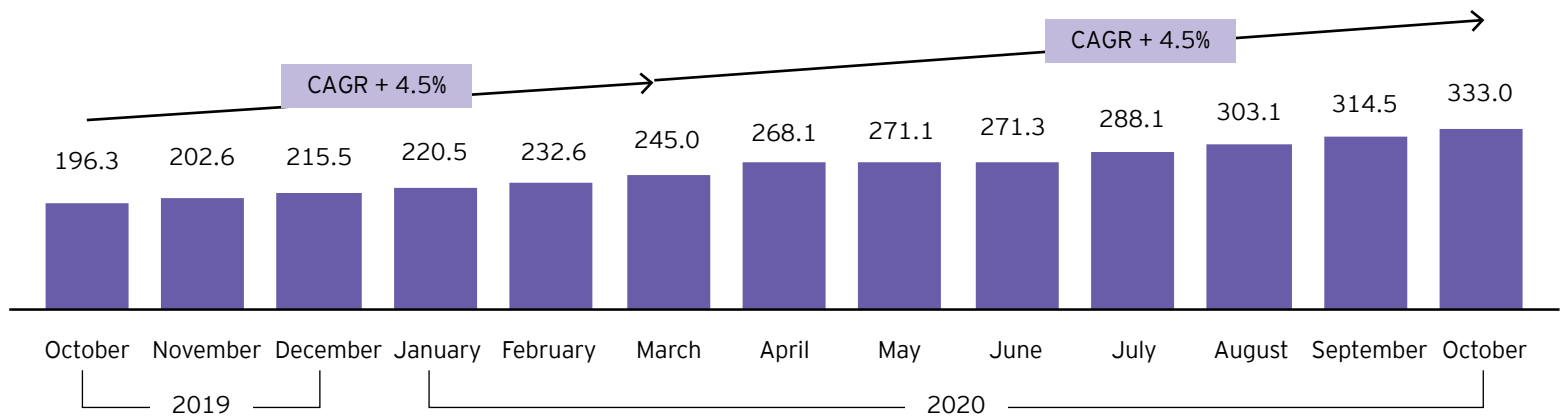
- ▶ Since participation banks are based on relationships pertaining to real economy such as production, commodity trade or services, they assume less risk in terms of loan repayment in the crisis period when the economy shrinks.
- ▶ The ratio of consumer loans in their loan portfolio is lower compared to that of conventional banks.
- ▶ It is anticipated that participation banks will have lesser liquidity problem compared to conventional banks, with their loyal customer portfolio structure.

- ▶ Since participation banking has a share of 7.1% in Turkish banking sector as of October 2020, it has the opportunity to manage its risks more easily.

It is expected that, if the economy comes to a standstill and cash flows of customers are adversely affected in the aftermath of the Covid-19 pandemic, a temporary decrease will be observed in the transaction volumes of participation banks as well. It is likely for customers to tend towards cheque accounts instead of participation accounts due to the need for liquidity in the pandemic period.

When the amount of funds collected in participation banking sector is examined; although the amount of funds collected in March when the Covid-19 pandemic started (245.0 billion TL; 5% growth) and in April (268.1 billion TL; 9% growth) increased compared to the previous month, growth of 4.5% was observed in the subsequent period, in parallel with the pre-pandemic period.

Graph 3.1.1: Development of the Amount of Funds Collected in Participation Banking in the Covid-19 Period (billion Turkish Liras)²



Reference: (1) Istanbul Chamber of Commerce, *Impacts on Participation Banks of the Economic Stagnation Caused by Covid-19 Pandemic*, 2020; (2) *Monthly Bulletin of BRSA*

CAGR: Compound Annual Growth Rate

3.2 DIGITALIZATION TREND IN BANKING SECTOR

Digitalization in Banking Sector

Due to the expectation that the Covid-19 pandemic will increase the demand for efficient online solutions by testing the stability of financial institutions, digitalization plays a critical role for the banking and financial services sector. For gaining competitive advantage, increasing productivity and providing better services to customers, digitalization has become an obligation in banking sector rather than just a necessity.

In terms of the numbers of active customers of digital services provided by banks, it is seen that, when the period from October to December 2019 and the period from April to June 2020 are compared, a total increase of 16% occurred in the number of both retail and corporate banking digital customers. When the details of the transactions carried out by customers are examined, it is seen that the transactions with the highest transaction volume and number are money transfers.

It is observed that, in parallel with the increased digitalization, numbers of branches and employees in banking sector are on a downward trend. While there were 11,565 branches and a total of

207,716 domestic and overseas employees in 2018, the number of branches decreased by 1.7% and dropped down to 11,374 while total number of domestic and overseas employees decreased by 1.5% and dropped down to 204,626 as of 2019.

Customer Experience and Channel Management²

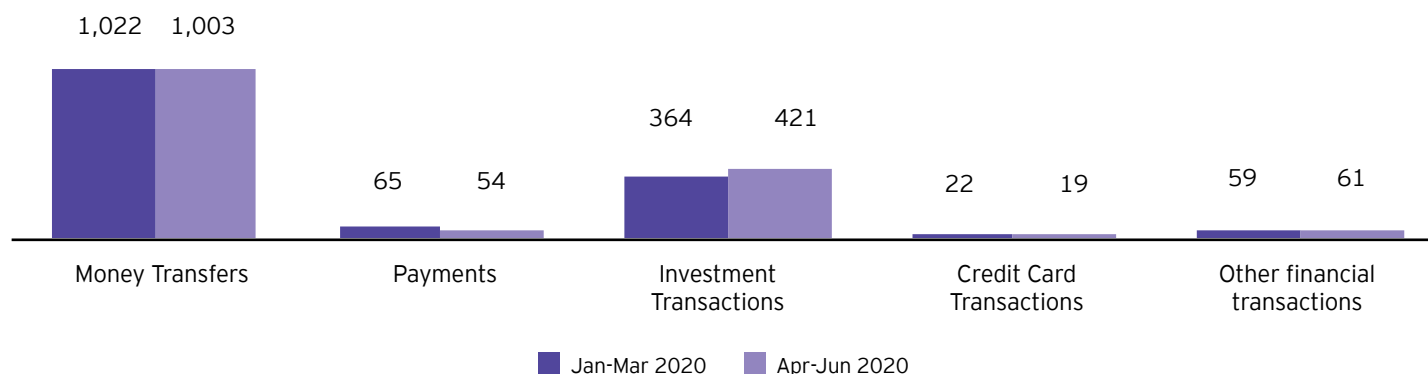
Digitalization brought a breath of fresh air also to the customer representation system. Artificial intelligence, chatbots and voice recognition technologies are being reshaped in a way that will enable faster response to customers. Fast and secure access by smart phones with eye scanning technology without using any password, fast money withdrawal transactions with QR code, and direct connection to call centers are among the developments that have increased the satisfaction of banking sector customers.

Based on EY Future Consumer Index which was issued in 2020, it is anticipated that with new services provided via technological developments to the banking sector, 73% of those persons between the age of 18 to 34 will be willing to purchase financial products from technology companies.

Table 3.2.1: Numbers of Active Digital Banking Customers in Turkey¹

	October-December 2019	April-June 2020
Total number of active digital customers in retail banking (thousand persons)	51,014	59,076
Total number of active digital customers in corporate banking (thousand persons)	2,143	2,611
Total number of active digital customers (thousand persons)	53,157	61,687

Graph 3.2.1: Turkish Internet Banking Transaction Volume (billion Turkish Liras)¹



Reference: (1) TBB (The Banks Association of Turkey) Digital, Internet and Mobile Banking Statistics, 2020; (2) EY Next Wave of Technology Transformation in Banking 2020

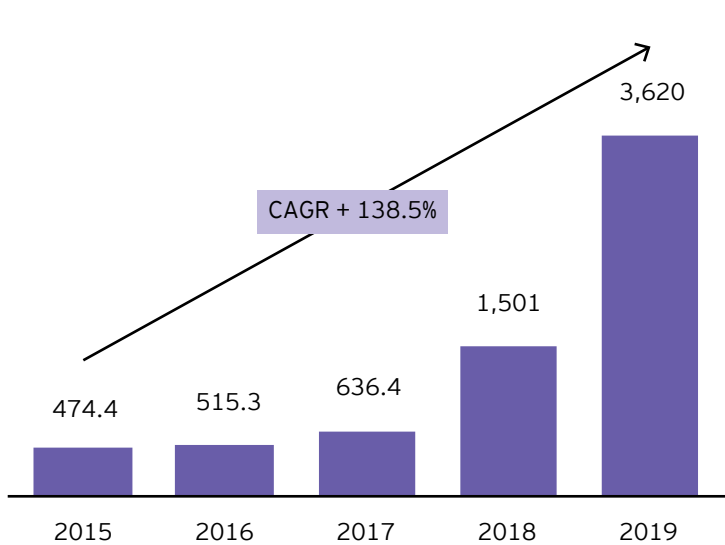
Note: (1) Participation banks are excluded from the data.

3.2 Digitalization Trend in Banking Sector

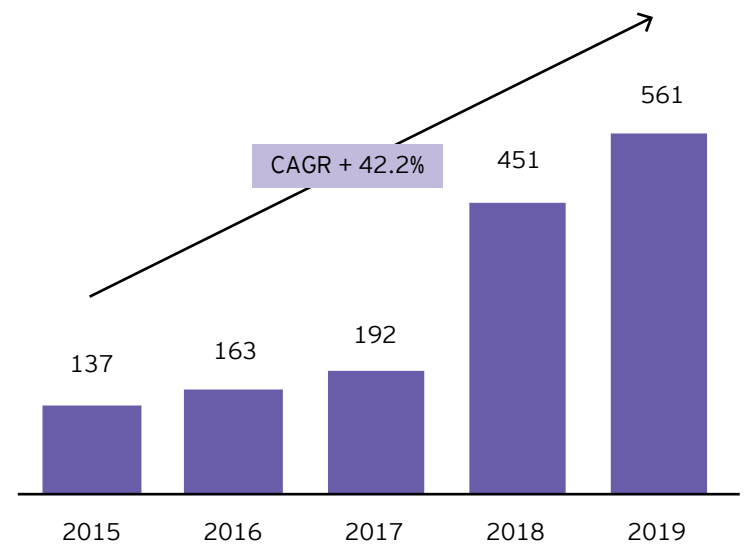
Digitalization in the Area of Participation Banking¹

Turkish participation banking sector aims to reach out to new customers in retail and corporate banking areas by developing alternative distribution channels and innovative practices through the use of the developments in financial technologies, and it is anticipated that the Covid-19 pandemic will cause the efforts to gain further momentum.

Graph 3.2.2: Number of Active Digital Banking Customers of Participation Banking (thousand persons)²



Graph 3.2.3: Digital Channels Transaction Volume of Participation Banking (billion Turkish Liras)²



Just like conventional banks, participation banks also started to make significant investments in digital banking. The fact that participation banks made investments in digital infrastructure for the purpose of gaining a share in banking sector, reducing their costs, and speeding up the transactions that are compliant with Islamic banking principles constitutes an important opportunity for participation banking.

Digital banking paves the way for eliminating the physical obstacles to reaching out to global Muslim population which does not yet have any bank account.

According to Moody's Investors Service report which was prepared in 2019, it is anticipated that digitalization will gain momentum among Islamic banks, internal processes will become more organized, and automation will lead to increased customer acquisition and operational costs will decrease.

National and international banks are expected to increase their existing technology investments with the triggering impact of Covid-19 pandemic and to strengthen their competencies in the area of digitalization.

Turkish Islamic FinTech Practices^{3,4,5}

Different areas are affected by the global developments in the technology and the finance sector has an important place among these areas that are affected. Within the scope of finance management, secure flow of financial data should be ensured and financial data flows should be monitored by digital technologies. In this context, with the impact of the digitalization trend in Turkish participation banking sector, participation banks are making investments in Islamic FinTech applications.

Examples of Islamic FinTech Applications in Turkey

- ▶ Albaraka Türk has supported entrepreneurs who have new business ideas in the area of financial technology through Albaraka Garaj that was constituted in 2017 as part of its own group of companies and that acts as a Startup Acceleration Center. In 2019, Albaraka Türk provided mobile wallet and POS services in a separate application via its digital payment application named Alneo, which was a first for the participation banking sector. On the other hand, Albaraka Türk developed a FinTech in 2020 named NakitBasit through which money withdrawal transactions can be made.
- ▶ In 2019, Kuveyt Türk Katılım Bankası, together with ComPay which is an important FinTech company, developed and launched the application of "Payment from Account with QR Code". In 2020, it provided the customers with the opportunity of paying invoices through the digital application named Mufi that it has developed in the area of financial technologies.
- ▶ Furthermore, MenaPay where applications such as tokenized share certificate and digital assets management are provided and Colendi which provides different application methods in the area of micro-finance are among those independent applications developed in Turkey outside of the scope of participation banking.

Reference: (1) Moody's Investors Services Challenges and Opportunities in Global Islamic Finance Industry Stability 2019; (2) TKBB Alternative Distribution Channels (ADC) Internet Banking Data; (3) Islamic Economic Research Center (IERC) Islamic FinTech Workshop 2020; (4) Islamic FinTech Websites (Albaraka Garaj, Alneo, NakitBasit, Mufi, MenaPay, Colendi); (5) Website of Kuveyt Türk
CAGR: Compound Annual Growth Rate

3.3 ISTANBUL INTERNATIONAL FINANCE CENTER^{1,2,3,4,5}

IFC and International Finance Centers

In today's economy policies, establishment of certain finance centers for the purpose of attracting investments of international investors and increasing commercial activities has an important place in the agenda of countries. Apart from London and New York which are among the leading finance centers of the world, important finance centers were established in Dubai, Singapore and Hong Kong with the shifting of economic power balance from the West to Asia. In this context, the macroeconomic recovery process which was experienced in Turkey and Istanbul's potential of becoming a center in finance markets led to the establishment of the Istanbul International Finance Center (IFC).

With the establishment of a corporate framework for the IFC project that was first introduced in the 9th Development Plan, it is aimed to put the investments into practice in the long-term. With the constitution of the corporate structure, the IFC project which is among Turkey's objectives for 2023 aims to elevate Turkey's position to a central country, including especially in terms of Islamic finance.

With the efforts of the Banks Association of Turkey and its stakeholders, Istanbul International Finance Center Strategy and Action Plan entered into force with the Decision no 2009/31 dated September 29, 2009 of the High Council for Planning.

International Finance Centers have some unique features such as the fact that cross-border transactions have a broader portion in the volume of financial services, that foreign financial institutions are predominant in the provision of financial services, that the fund owners and fund users are brought together in international arena, that financial centers are located at the center for the purposes of cross-border transactions, and that the markets and financial products are arranged according to cross-border demand.

Criteria to be met in order for Istanbul to become a Finance Center

Given the economic and financial development level of Istanbul in the region containing Turkey, Istanbul is seen as a city that has the potential of becoming a regional and global center and it is emphasized that it is a city that can meet the criteria necessary for being an International Finance Center. Turkish Stock Exchange (Borsa Istanbul) specifies the below-listed criteria to be met by Istanbul in order to become an International Finance Center:

- ▶ Access to International Finance Centers
- ▶ Access to Customers
- ▶ Qualified Labor Opportunity
- ▶ Regulatory Environment
- ▶ Business Infrastructure Opportunities and business infrastructure
- ▶ Fair Business Environment
- ▶ Corporate Tax Regime
- ▶ Operational Costs
- ▶ Culture and Language

It is emphasized that, with the practices carried out in accordance with IFC Project plan, Istanbul rose up to the 59th place among the International Finance Centers in 2019. It is further emphasized that strategies were set in the process of the IFC Project such as development of human resources and administrative, technological and infrastructural resources and it is underlined that the Istanbul International Finance Center (IFC) enabled the formation of participation banks, takaful companies as well as portfolio management companies and individual pension companies operating on interest-free basis. It is specified that, with the Renewed Capital Markets Law and Capital Markets Regulations, the organization by the Turkish Stock Exchange (Borsa Istanbul) of its technological infrastructure in line with global competition environment, and the entry of Istanbul Arbitration Center into service, Turkey improved itself both in capital markets and in banking and achieved the European standards in the relevant matters.

Advantages to be Provided by IFC to Turkey and its Finance Sector

It is anticipated that the IFC Project will introduce significant gains to the Turkish Finance sector, through its vision and the strategies under its objectives. In this context, the advantages to be provided by IFC to Turkey and its finance sector were specified in the report on Istanbul's Pursuit of Becoming an International Finance Center, as follows:

1. It is emphasized that, through IFC, the capital brought from the Middle East to Turkey will turn into long-term capital movements and gains will thus be achieved in economic areas.
2. It is specified that the IFC project will contribute to the development of Turkey's competitive position in the area of Islamic finance.
3. It is further emphasized that, with the establishment of IFC, the foreign capital will ensure the development of participation banking, which will in turn cause the development process of participation banking to gain momentum, and in addition, with the expansion of the range of Islamic finance instruments used, diversity will be achieved in business environment.

Reference: (1) Ninth Development Plan of the Republic of Turkey (2017-2013); (2) Global Finance Centers Index of Turkish Capital Markets Association, 2019; (3) IFC Vision of TKBB; (4) Turkish Stock Exchange (Borsa Istanbul) International Finance Center Report; (5) SETAV (Foundation for Political, Economic and Social Research), Istanbul's Pursuit of Becoming a Finance Center, 2017

3.3 Istanbul International Finance Center (IFC)

Table 3.3.1: TKBB - IFC Tasks Current Status Table^{1,2}

#	Tasks in IFC Program for which TKBB Acts as a Responsible Body	Current Status	End Date
74 - Promotion Campaign	Task 6 : Promotion campaign, tv and radio spots detailed with regard to instruments and methods	✓	4 th quarter of 2019
	Task 7 : Support by customer representatives of participation banks, web page supports	✓	1 st quarter of 2017
	Task 8 : Getting the Presidency of Religious Affairs of the Republic of Turkey (DİB) involved in the process; making use of DİB's TV and Radio	✓	4 th quarter of 2019
75 - Transparency Mechanism	Task 1 : Performance of researches and determinations (customer researches including customer segments as well), preparation of a report regarding the items requiring transparency	✓	2 nd quarter of 2020
	Task 2 : Sharing the report with stakeholders; inclusion on the website of TKBB a section where the differences of participation banks from conventional banks are explained in detail.	→	2 nd quarter of 2021
	Task 11 : Publication of these differences on the website of HCRA (High Council for Religious Affairs)	✗	-
	Task 5 : Provision of information by participation banks to their customers during the negotiations with customers regarding the existence of a risk of loss, and their acceptance to share the information demanded	✓	4 th quarter of 2020
76 - Corporate Social Responsibility / 77 - Determining the Applications and Terms	Task 3 : Determining the terms and implementations against the perception that the difference is only a figurative one and developing alternatives such as loan / interest-free repo	✓	4 th quarter of 2020
	Task 4 : Informing the staff of the terms and implementations constituted, by way of trainings	→	4 th quarter of 2021
78 - Academic Publication Database	Task 9 : Determining the database to be constituted in order to increase the number of Turkish academic publications, and the academicians working in this area, and collecting the books / articles together in this data set	✗	-
	Task 10 : For the purpose of eliminating the shortage of resources in the area of Turkish literature, arranging the translation of certain important foreign books published abroad in the fields of economy, interest-free banking and interest free insurance etc. and implementing a mechanism which will create copyrighted works	✓	4 th quarter of 2017
81 - Certification	Task 12 : Attendance to overseas training programs by employees with a promising potential; online trainings, English language trainings	✓	1 st quarter of 2020
	Task 13 : Provision of training to the relevant staff from overseas advisory boards and / or universities	→	1 st quarter of 2021
	Task 15 : Achieving quality increase in terms of staff as well as common terminology, through e-learning, simulation techniques and online trainings	✓	4 th quarter of 2020
83 - Scholarship / Award	Task 6 : Constituting the ideal framework for internship programs and creating a common pool	✗	-
	Task 7 : Establishing a scholarship fund within the body of TKBB with the contributions of participation banks	✓	4 th quarter of 2020
86 - Reorganization of TKBB	Task 2 / partial : Expanding working committees, business models, product range and branch network in coordination with TKBB, and ensuring and coordinating the cooperation among participation banks in terms of economy of scale	✓	3 rd quarter of 2017
	Task 30 : Establishing a Legislation Function within the body of the Association	✓	1 st quarter of 2018
88 - Communication Channel with HCRA	Task 11 : Establishing a communication channel between HCRA and TKBB, and in the case of a request for fatwa, presenting the issue to the attention of participation banks as well	✓	2 nd quarter of 2018
	Task 8 : Declaration of the system principles by the Presidency of Religious Affairs to the public, by addressing them in more detail in the announcements and publications to be made through its own media organs and other communication channels / tools	✓	4 th quarter of 2019
92 - Ethical Principles	Task 9a : Commencing the studies for preparation of the ethical principles document and inclusion thereof in the agenda of TKBB Central Advisory Board	→	1 st quarter of 2022
97 - New Products	Task 26 : Changing the description of participation fund for the purpose of development of the Wakala product	✓	4 th quarter of 2018
	Task 37 : Establishing a "Committee for Development of Participation Banking Products" within the body of TKBB and preparing a report on the applicability of new products in our country	✓	4 th quarter of 2016
	Task 22 : Ensuring the transfer of power licenses	✓	1 st quarter of 2017
	Task 24 : Introducing regulations which will prevent the offering of more than one funds with a proforma invoice	✓	3 rd quarter of 2019
	Task 40 : Constituting closed fund pools that operate by distributing the profits directly to the relevant customers	✓	3 rd quarter of 2018
	Task 36 : Constituting indices similar to Participation Index products	✓	3 rd quarter of 2020

Reference: (1) Turkish Participation Banking Strategy Document (2015-2025);
(2) Istanbul International Finance Center Program Action Plan

✓ Completed → Ongoing ✗ Canceled



4

Growth Forecasts of Turkish Participation Banking

THE SCENARIO OF PARTICIPATION BANKING'S ACHIEVEMENT OF A MARKET SHARE OF 15%

Turkish Participation Banking sector's objective of "achieving a market share of 15% in 2025", which was set in the Turkish Participation Banking Strategy Document (2015-2025) and which is still applicable in the Participation Banking Strategy Update Report (2021-2025) continues to form part of the vision of TKBB.

Total assets size of participation banks reached 284.5 billion Turkish Liras in 2019 and total assets growth for the period from 2015 to 2019 was recorded as 24%. In accordance with the projection study that was carried out, it was anticipated that participation banks should achieve an assets growth of 31% from 2020 to 2025 in order to reach the targeted market share. The projection study of Participation Banking Strategy Update Report (2021-2025) took into account:

- ▶ That the existing growth trend in banking sector will continue in the period from 2021 to 2025,
- ▶ That the impact of Covid-19 will be limited to the year 2021,
- ▶ That the supports to participation banks with regard to public, customers and products will continue, and
- ▶ That economic fluctuations will follow a stable course in the upcoming period.

Participation Banking Strategy Update Report (2021-2025) set forth 23 actions required to be taken for the growth of participation banks in the period from 2020 to 2025 at a higher rate compared to the period from 2015 to 2019 and these actions were listed under 6 main strategic objectives and 10 strategies.

Graph 4.1: Total Assets Size of Participation Banks based on the Scenario of a Market Share of 15% (billion Turkish Liras)

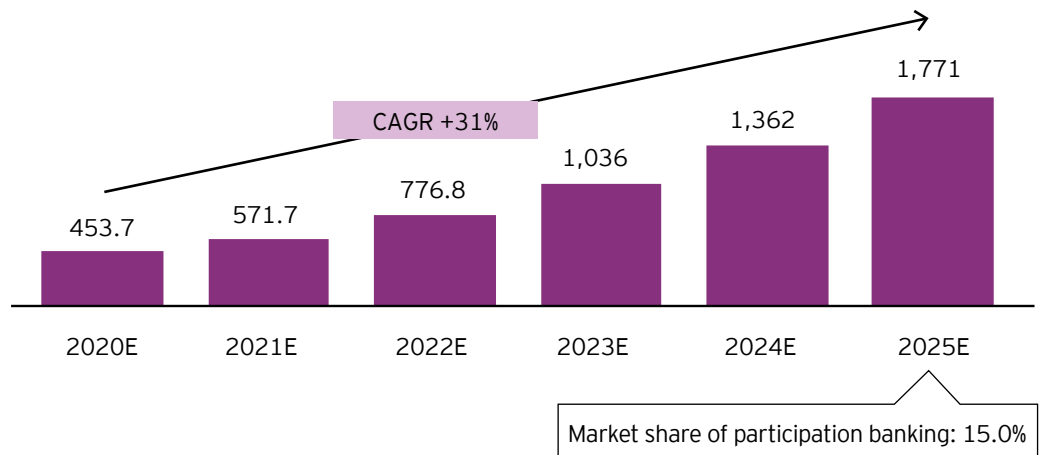


Table 4.1: Participation Banking Balance Sheet Items based on the Scenario of a Market Share of 15%

Billion TL	2019	2020E	2025E	2020-2025 CAGR
Total Assets	284.5	453.7	1,771	31%
Funds Made Available	136.2	226.4	1,063	36%
Securities	41.6	62.9	177.2	23%
Funds Collected	215.5	331.0	1,045	26%
Shareholders' Equity	21.8	34.0	156.8	36%

*E: Refers to the estimated values.
CAGR: Compound Annual Growth Rate*





5

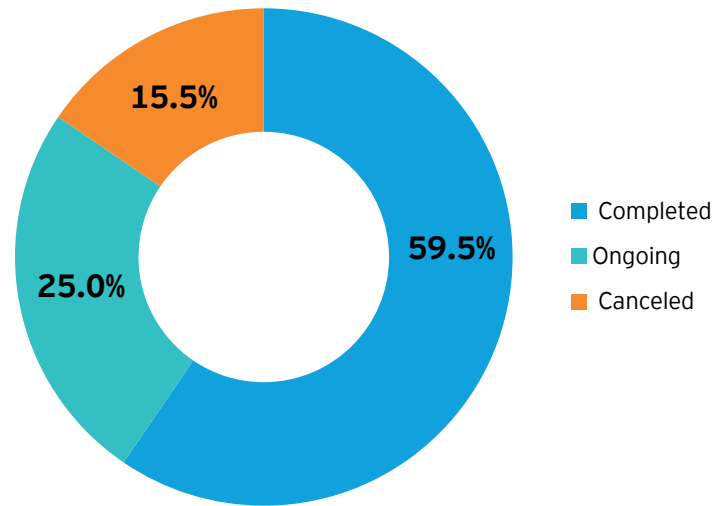
Current Status of Strategic Objectives

5. CURRENT STATUS OF STRATEGIC OBJECTIVES

Interviews were made with stakeholders to determine the current status of the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025). Tasks were grouped under three main titles, being Completed, Canceled and Ongoing. The tasks which were carried out and finalized by the relevant responsible bodies were specified under the title of Completed and the tasks which will not be carried out as a result of change of needs were specified under the title of Canceled. Efforts for the tasks specified under the title of Ongoing were initiated and the tasks were planned to be completed until 2025.

The actions and strategies in relation to the 84 tasks contained in the Turkish Participation Banking Strategy Document (2015-2025) were placed under the 5 main strategic objectives which were set in 2015 (Sectoral Strategy; Product Range; Advisory Boards; Learning, HR, Certification and Corporate Communications, Perception, and Reputation.

Graph 5.1: Current Status of the Tasks Contained in the Turkish Participation Banking Strategy Document (2015-2025)



Sectoral Strategy	2	5	7	
Product Range	9	12	24	45
Advisory Boards	1	1	3	5
Learning, HR, Certification	3	4	8	15
Corporate Communication, Perception, Reputation	2		10	12



Reference: Turkish Participation Banking Strategy Document (2015-2025)

From among the strategies and actions contained in the Turkish Participation Banking Strategy Document (2015-2025), the **completed tasks** are specified below:

Sectoral Strategy and Coordination

Strategy	Action
1.1 Determining the duties and responsibilities of stakeholders in line with sector strategies	1.1.1 Turning TKBB into a coordination center in line with the sector strategies
	1.1.2 Setting the objectives of participation banks in line with the sector strategies
	1.1.3 Determining the duties and responsibilities of public institutions in line with the sector strategies

■ 1.1 Determining the duties and responsibilities of stakeholders in line with sector strategies

1.1.1 Turning TKBB into a coordination center in line with the sector strategies

► **Task-1:** In order that the needs of participation banks can be expressed on a common platform and the problems on the development of the sector can be solved, relationships of participation banks with public institutions were developed. In 2014, Interest-free Finance Coordination Board was established with a Circular of the Prime Ministry. This board served as a proactive and supporting structure which coordinated all the relevant institutions pertaining to participation banking and which ensured coordination in order that the developments could be continued effectively. The board carried out its operations within the body of the Undersecretariat of Treasury and took part in TKBB Central Advisory Board as an active participant. Currently there is no Coordination Board. Organizational capacity of the Association was developed in terms of competencies and resources. In 2018, the Association was restructured from an organizational point of view. The team was expanded, and TKBB Central Advisory Board and experts were introduced. Competence levels of the Association's employees were improved and new recruitments were made within the Association. During this process, it was ensured that more efficient efforts were carried out for structural development of the relationships with regulatory authorities, markets and customers.

1.1.2 Setting the objectives of participation banks in line with the sector strategies

► **Task-2:** The Undersecretariat of Treasury established a mechanism which will coordinate all the relevant institutions in relation to interest-free finance and which will ensure coordination in order that the developments can be continued effectively. In addition to its function of determining the vision on interest-free finance and establishing coordination between the relevant parties, the aforementioned mechanism also ensured that our country attracted foreign investments within the scope of interest-free

finance, that the information of foreign investors were obtained, that the funds obtained from international organizations were increased, and that relationships were developed and managed to contribute to more effective use of IDB funds. For the opening of Istanbul International Finance Center, TKBB, Presidential Finance Office and Investment Office carried out studies in order that foreign financial institutions can open representation offices and departments and make investments in Turkey.

Working principles of the relevant committees were determined and the agenda for setting a common strategy was identified as follows:

- Increasing the service quality by updating the existing business models
- Continuing with the product innovations and developments which will expand the product range and raise customer satisfaction to a higher level
- Facilitating accessibility by expanding the branch network and increasing the investments made in mobile banking
- Establishing cooperation among participation banks in terms of economy of scale

1.1.3 Determining the duties and responsibilities of public institutions in line with the sector strategies

► **Task-3:** Within the scope of development of an ideal reserve application aimed at dividend fluctuations; in the first stage, interviews were made by BRSA with the relevant stakeholders and studies were conducted for determining what should be done for an ideal application, and the alternative opportunities that can be resorted to in this process, and in the second stage, studies were made for making the necessary arrangements and proceeding to the implementation stage.

► **Task-6:** The intention was to govern all the relevant sector institutions under the same regulations on common issues, to search for a solution where the regulations needed in relation to interest-free finance differ from the conventional system, and to constitute a "Legislation Committee" in which the relevant



stakeholders will take part for the purpose of making regulations. Within this scope, the Legislation Study On Certified System was carried out by creating a team and it was sent to BRSA. Accordingly, the Interest-free Finance Draft Law was prepared in 2016 but was not finalized.

- **Task-7:** For the purpose of supporting the development of the sector, efforts for establishment of participation banks with public capital were completed. Ziraat Katılım Bankası and Vakıf Katılım Bankası were established in 2015 and Emlak Katılım Bankası was established in 2019.

Product Range and Development

Strategy	Action
2.1 Increasing the efficiency of products which are already in use	<p>2.1.1 Introducing legislative frameworks on sukuk issuances</p> <p>2.1.2 Implementing the actions aimed at increasing sukuk issuances</p> <p>2.1.5 Introducing legislative frameworks on the financial leasing product</p> <p>2.1.7 Introducing legislative frameworks on the Wakala product</p> <p>2.1.9 Introducing legislative frameworks on participation accounts</p>
2.2 Diversifying the placement product structure of participation banking system	<p>2.2.1 Constituting a permanent and independent legislation function within the body of TKBB</p> <p>2.2.3 Constituting the sample business model</p>
2.3 Launching those products which are used in the countries where the interest-free banking practice is present and which have been used in Turkey in the past but are not used today in participation banks	<p>2.3.1 Determining the legislative requirements and areas of application of the products which do not exist</p>
2.4 Expanding the fund range of participation banks	<p>2.4.1 Increasing the access to international funds</p> <p>2.4.2 Expanding the fund range within the body of banks</p>
2.5 Developing policies for public institutions that are aimed at participation banking and establishing organizational structures which will monitor the implementation of these policies	<p>2.5.1 Regulating the organizational structuring of BRSA in line with the needs of the sector</p> <p>2.5.2 Creating teams at CMB within its existing structure, which are actually constituted for participation banking</p> <p>2.5.3 Constituting a working group or team within the body of Public Oversight, Accounting and Auditing Standards Authority in relation to participation banking institutions</p>

Reference: Turkish Participation Banking Strategy Document (2015-2025)

■ 2.1 Increasing the efficiency of products which are currently used

2.1.1 Introducing legislative frameworks on sukuk issuances

- ▶ **Task-1:** The notes of committees under the Association and the decision of the advisory committee in relation to making sukuk issuances with alternative funds in underlying assets as well as the opinions on gold-based sukuk issuance were sent to the Undersecretariat of Treasury. As of 2017, the Ministry of Treasury and Finance started to use gold-based sukuk as one of the domestic debt instruments. The opportunity of Ijarah Sukuk, Sukuk Al-Wakala, and CPI-indexed Sukuk issuances was included in regulations in 2014, 2015 and 2016, respectively. (the Sukuk Communiqué no. 61/1)
- ▶ **Task-2:** While the underlying asset does not change hands in the ijarah sukuk, it is emphasized that public debt instruments may change hands in the background in sukuk al-wakala. Thus, it is specified that the problem of prohibition regarding disposition for purposes other than security was solved partially.
- ▶ **Task-3:** With the omnibus act no. 6111, the problem regarding corporate tax, VAT, stamp tax, and title deed fees was solved. With the tax exemption which was applied in 2016, all the tax-related obstacles faced by private sector sukuks were eliminated: Sub-paragraph J which was included in article 5/1 of the Corporate Tax Law no 5520 introduced a corporate tax exemption for the incomes arising from sales of any movable and immovable properties by institutions to financial leasing companies, participation banks and development and investment banks for lease-back purposes under the Law no. 6361 and on the condition of their repurchase at the end of the lease period, and for the incomes arising from transfer of the aforementioned properties by these institutions to the institution from which they were taken over at the end of the lease period. The Association filed an application with CMB in relation to the legislative problems regarding the issuance cap, in respect of increasing the share of participation banks in sukuk issuances. In addition, an application was made to CMB regarding the fact that participation banks are unable to collect funds from users in the case that they receive a demand above the series issuance amount of which they notified CMB, except for issuances for which public offerings are made. Within the framework of the reply received from CMB, the problem was solved by proposing a different solution. Performance of residential property financing by financial leasing method was found to be in breach of Shariah, even though it was included in the Product Report along with a simulation.
- ▶ **Task-5:** For the purpose of establishing a central depository function where the institutions carrying on business abroad can stock precious metals in Turkey, including especially gold, and offer these stocks, when necessary, to Turkey or to the countries in the vicinity in order to become an important central depository

institution from a regional point of view, a modern depository safe box with a capacity of 1800 tons was constituted at BIST. Thus, it was made sure that participation banks made efficient use of the Precious Metals Lending Market.

- ▶ **Task-13:** It was specified that certain banks obtained approval from CMB to carry out foreign sukuk issuance transactions without the obligation of additional valuation.

2.1.2 Implementing the actions aimed at increasing sukuk issuances

- ▶ **Task-15:** It was emphasized that the Ministry of Treasury and Finance can make sukuk issuance in different currencies. It was specified pursuant to the decision no.32 that the participation banks in Turkey can make sukuk issuance only in Turkish Lira and it was emphasized that they cannot make sukuk issuance in foreign currencies. It was stated that sukuk issuance can be made abroad in different currencies. It was emphasized that, with BIST switching to double listing in 2016, the capital market instruments issued abroad by institutions resident in Turkey can be listed by BIST as well. In addition, it was specified that sukuks issued abroad can be quoted by BIST as well.
- ▶ **Task-16:** Regulations were made for facilitating and encouraging private institutions to issue sukuk and interest-free capital market instruments. With the tax exemption which was applied in 2016, all the tax-related obstacles faced by private sector sukuks were eliminated: Sub-paragraph J which was included in article 5/1 of the Corporate Tax Law no 5520 introduced a corporate tax exemption for the incomes arising from sales of any movable and immovable properties by institutions to financial leasing companies, participation banks and development and investment banks for lease-back purposes under the Law no. 6361 and on the condition of their repurchase at the end of the lease period, and for the incomes arising from transfer of the aforementioned properties by these institutions to the institution from which they were taken over at the end of the lease period.
- ▶ **Task-17:** The Committed Transactions Market where sukuks are traded in Turkish Stock Exchange (Borsa Istanbul) became operational on 02/07/2018 and transactions started to be carried out in this market. It was specified that the aforementioned market operates in compliance with the working principles of participation banks and it was emphasized that other banks can also carry out transactions in this market.

2.1.5 Introducing legislative frameworks on the financial leasing product

- ▶ **Task-22:** In 2017, transfer of power licenses to another legal person was made possible.
- ▶ **Task-23:** Legislative studies were carried out for exemption of the financial leasing transactions of participation banks from the real estate limitations contained in the legislation.

► **Task-24:** For the purpose of preventing repetition and forgery in the documents that are the subject of trading and are used in participation banks while providing finance, Participation Banks Invoice Recording System was established.

2.1.7 Introducing legislative frameworks on the Wakala product

► **Task-26:** The legislative regulation on the “wakala-based fund collection” transaction, which will enable participation banks to achieve a flexible structure in providing funds, which is seen as an important step in the development of the sector, and which is used in international practices as a fund collection method of participation banks, was prepared by the Legislation Committee, the Legal Committee and other relevant committees and sent to BRSA. Immediately afterwards, with the “Regulation on Introduction of an Amendment to the Regulation on Procedures and Principles regarding the Acceptance and Withdrawal of Deposits and Participation Funds and regarding the Deposits, Participation Funds, Loans and Receivables Which are Lapsed”, which was published on the Official Gazette of the Republic of Turkey on 18/10/2018, the legal basis for participation banks to collect funds by wakala method was constituted.

2.1.9 Introducing legislative frameworks on participation accounts

► **Task-28:** Pursuant to article 4 of the Regulation on Measurement and Assessment of the Capital Adequacy of Banks, it was identified by the Association’s Risk Committee that 70% of the loans made available from participation account is taken into account as the amount which is the basis of the credit risk and this ratio which is called the alpha ratio is not compatible with the loss participation ratio assumed by participation banks in practice, and this finding was communicated to BRSA in an official letter. With the “Regulation on Introduction of an Amendment to the Regulation on Measurement and Assessment of the Capital Adequacy of Banks”, which was published on the Official Gazette of the Republic of Turkey no. 29840 dated 27.09.2016, paragraph one of article 5 of the Regulation was revised.

■ 2.2 Diversifying the placement product structure of participation banking system

2.2.1 Constituting a permanent and independent legislation function within the body of TKBB

► **Task-30:** The need for a product legislation for participation banking sector was resolved through the committees. Product Development Study Committee was established, and two reports indicating both the legislative needs and the implementation were prepared and sent to the members of the Interest-free Finance Coordination Board and to public institutions. Further to the amendment introduced to the regulation enacted in 2019, the Legal Committee is carrying out studies on the legislation infrastructure of products under the name of standard contracts

and TKBB Central Advisory Board is ensuring the progress of the legislation to publication process by performing the shariah controls.

2.2.3 Constituting the sample business model

► **Task-35:** Crowd Funding Communiqué was published in October 2019.

► **Task-36:** Participation 30, Participation 50 and Participation Model Portfolio Indices were opened. Studies are ongoing on the part of the Turkish Stock Exchange (Borsa Istanbul) for constituting a participation index within the framework of the Share Certificate Standard prepared by TKBB Central Advisory Board. There is a professional classification decision taken by the Association’s Board of Directors in relation to determination of basic principles of the investment funds the trading of which will be approved by participation banks.

■ 2.3 Launching those products which are used in the countries where the interest-free banking practice is present and which have been used in Turkey in the past but are not used today in participation banks

2.3.1 Determining the legislative requirements and areas of application of the products which do not exist

► **Task-37:** A Product Development Committee was established within the body of the Association and a planned model was implemented through the holding of discussions by the committee in consultation with the advisor scholars who are members of TKBB Central Advisory Board, combining them in a report, and exchanging opinions with the stakeholder public institutions (BRSA being in the first place) and other institutions. The new products proposed by the Product Development Committee (for example, wakala) were presented in 2016 to the Interest-free Finance Coordination Board (IFCB) in a report named Instrument Diversification, Problem Description and Solution Offers. The Innovative Products Workshop was held in March 2017 for 2 days with participation of the representatives of the World Bank and participation banks and foreign scholars.

■ 2.4 Expanding the fund range of participation banks

2.4.1 Increasing the access to international funds

► **Task-38:** Relationships were established and various agreements were made by TKBB with global Islamic Financial Institutions. On May 25, 2017, a memorandum of understanding was signed between the Participation Banks Association of Turkey and the Islamic Development Bank. Turkish translation of AAOIFI’s Interest-free Finance Standards was completed.

► **Task-39:** For provision of funds, a loan facility at a value of 300 million USD was opened which was made available to participation banks from abroad through the Export Credit Bank of Turkey.

2.4.2 Expanding the fund range within the body of banks

► **Task-40:** The participation banks that requested a closed fund pool were allowed to constitute the same.

► **Task-42:** In order to extend the implementation of venture capital investment fund, real estate investment fund, infrastructure real estate investment partnership and participation umbrella fund, participation banks constituted funds as a result of the regulation efforts made by CMB regarding the aforementioned products. In line with these opportunities, participation banks carried out the purchase and sale transactions of only the participation-based funds on the TEFTP.

■ **2.5** Developing policies for public institutions that are aimed at participation banking and establishing organizational structures which will monitor the implementation of these policies

2.5.1 Regulating the organizational structuring of BRSA in line with the needs of the sector

► **Task-43:** For the purpose of meeting the needs of the sector, BRSA Department of Enforcement III carried out studies on participation banking.

2.5.2 Creating teams at CMB within its existing structure, which are actually constituted for participation banking

► **Task-44:** Studies on participation banking sector were also made under the Department of Corporate Finance of CMB.

2.5.3 Constituting a working group or team within the body of Public Oversight, Accounting and Auditing Standards Authority in relation to participation banking institutions

► **Task-45:** There are teams formed under POA (Public Oversight Accounting and Auditing Standards Authority) that carry out studies on interest-free finance. Translation of the Interest-free Finance Accounting Standards which was published by AAOIFI was completed in 2019 in coordination with the team working POA, with the contributions of the Association's Financial Affairs Committee.

Advisory Boards

Strategy	Action
3.1 Constituting the TKBB Central Advisory Board for participation banks	3.1.1 Determining the organizational structure of TKBB Central Advisory Board
3.2 Standardizing the bank advisory committees of participation banks	3.2.1 Determining the organizational structure and working model of the bank advisory committees within the body of participation banks

■ 3.1 Constituting the TKBB Central Advisory Board for participation banks

3.1.1 Determining the organizational structure of TKBB Central Advisory Board

► **Task-1:** To ensure uniformity in the compliance of the participation banking sector with the interest-free principles, TKBB Central Advisory Board of 5 members consisting of academicians and sector experts was constituted within the body of TKBB with the decision no 7736 of BRSA. The Board started its operations actively in February 2018 and officially in May 2018. With a general meeting held by TKBB, approval of all the stakeholders was obtained, the relevant public institutions were informed about the issue, and TKBB Central Advisory Board started its practices within the body of TKBB. In accordance with a new decision taken, the number of members of the board was increased to 7.

■ 3.2 Standardizing the bank advisory committees of participation banks

3.2.1 Determining the organizational structure and working model of the bank advisory committees within the body of participation banks

► **Task-4:** In 2019, job descriptions and functioning of the advisory committees of banks were regulated with the Communiqué on Compliance with the Interest-free Banking Principles and Standards (Communiqué no. 30888 of BRSA). Members of the bank advisory committees were designated by the boards of directors of banks. TKBB Central Advisory Board was notified of the members within a certain time period following their appointment. It was agreed that TKBB Central Advisory Board would be consulted on those issues which cannot be agreed upon by bank advisory committees. Bank advisory committees were rendered independent from the enforcement within the structure which will be established and they were positioned as a part of internal systems departments in accordance with the current legislation.

► **Task-5:** It became mandatory to establish bank advisory committees pursuant to a petition to be filed by the Board of Directors of TKBB with BRSA and it was agreed that bank advisory committees will periodically send the decisions taken by them to TKBB. Regulatory studies were carried out for incorporating the issues pertaining to the advisory committees in the relevant legislation.

Learning, HR, Certification

Strategy	Action
4.1 Developing open and distance education, undergraduate, postgraduate and Ph.D. programs in relation to participation banking and eliminating the shortage of faculty members	<p>4.1.1 Increasing the number of departments / courses on interest-free banking, opened in universities and open education faculties</p> <p>4.1.3 Increasing the scholarship, awards and internship opportunities for participation banks</p>
4.2 Constituting a database of persons and works in relation to participation banking and eliminating the shortage of course materials	4.2.1 Determining the database to be constituted in order to increase the number of Turkish academic publications, and the academicians working in this area, and collecting the books / articles together in this data set
4.3 Increasing the number of staff specialized in participation banking and developing the staff competencies	<p>4.3.1 Providing the necessary training to the staff employed at public institutions and developing the incentive policies necessary for their specialization</p> <p>4.3.2 Providing the necessary training to the staff of participation banks and developing the incentive policies necessary for their specialization</p>
4.4 Establishing institutes or research centers for participation banking	4.4.1 Investigating the opportunities for establishing an institute / research center which will work in the area of participation banking, and then planning their establishment
4.5 Extending the recognition of the participation banking terminology	4.5.1 Using educational technologies such as e-learning and simulation for the purpose of accurate information sharing and contributing to constitution of a common language

■ 4.1 Developing open and distance education, undergraduate, postgraduate and Ph.D. programs in relation to participation banking and eliminating the shortage of faculty members

4.1.1 Increasing the number of departments / courses on interest-free banking, opened in universities and open education faculties

► **Task-1:** In 2015, meetings were held by representatives of CHE, universities, TKBB and BRSA for incorporation of the aforementioned courses into the study programs of those universities which are willing to do so. 11. It was specified in the Development Plan that the contents of courses in relation to participation banking sector are within the areas that are prioritized by CHE. Marmara University Institute of Islamic Economics and Finance (MUIIEC) was established in 2019. In addition, undergraduate courses are provided in 3 universities and it was emphasized that about 10 universities have research centers and postgraduate and Ph.D. programs.

4.1.3 Increasing the scholarship, awards and internship opportunities for participation banks

► **Task-7:** For the purpose of sending the students graduated every year from the relevant departments of universities to the postgraduate programs available domestically and

abroad, a scholarship fund was constituted within the body of TKBB with the contributions of participation banks. It was emphasized that applications are received every year until a certain date and assessed by the educational function of TKBB. It was specified that scholarship support is provided to those Ph.D. students who receive education in doctorate program in Islamic Economics, Islamic Economics and Finance, Islamic Banking and Finance, International Finance and Participation Banking and Islamic Economics and Finance or similar departments and who have the requisite qualifications. Currently, 51 postgraduate and Ph.D. students are provided with scholarship support. The number of students to be provided with a scholarship is assessed and decided upon in the financial budget for the relevant year. In 2020-2021 school year, 4 postgraduate students and 17 Ph.D. students continue to be provided with a scholarship.

► **Task-8:** It was agreed that the educational function within the body of TKBB will grant an award every year for the purpose of increasing the number of articles written and it was specified that article-writing contests have been organized for the last 3 years. It was specified that the topics of award-winning article contests are Future Simulation of Participation Banking in the World and in our Country, Potential of Dealing with Participation Finance Stakeholders, Proposals for the Theoretical Infrastructure of Participation Finance System, Existing Problems of the Participation Finance System in Turkey and the Solution Offered Thereto, Participation Banking According to Islamic Economics Understanding, Partnership and Social Solidarity, Successful Interest-free Finance Products Applied in the World and Their Applicability in Turkey, and Digitalization and Innovation in the Area of Interest-free Finance. The awards to be given at universities were communicated by the educational function and the top three articles were given rewards at predetermined amounts at the end of the year with the assessment made by the educational function, and the top three articles which were given a reward in the article contest were also published in a book.

Reference: Turkish Participation Banking Strategy Document (2015-2025)

■ 4.2 Constituting a database of persons and works in relation to participation banking and eliminating the shortage of course materials

4.2.1 Determining the database to be constituted in order to increase the number of Turkish academic publications, and the academicians working in this area, and collecting the books / articles together in this data set

► **Task-10:** It was specified that there is a Publication Board within the body of the Association, which, for the purpose of eliminating the shortage experienced in the area of Turkish literature in the previous periods, organizes translation of certain important foreign books that are available abroad in the fields of economy, interest-free banking and interest free insurance etc. and creates copyrighted works. By virtue of execution of a protocol for book printing process between the Association and Marmara University and Istanbul University, various works which were thought to be contributing to the sector were translated and published.

■ 4.3 Increasing the number of staff specialized in participation banking and developing the staff competencies

4.3.1 Providing the necessary training to the staff employed at public institutions and developing the incentive policies necessary for their specialization

► **Task-11:** Under the Communiqué on Compliance with the Interest-free Banking Principles and Standards, an "Interest-free Banking Standards Compliance Certification Training" was organized in cooperation with the Association and MUIIEC for those employees who will hold offices in Interest-free Banking Compliance and Supervision Activities and in the Secretariat of the Advisory Committee. In addition, 2 separate certification programs were put into practice in relation to sukuk and standards. The action assisted in meeting the need for qualified labor that was lacking in this area, by increasing the information infrastructure in interest-free finance and encouraging specialization.

4.3.2 Providing the necessary training to the staff of participation banks and developing the incentive policies necessary for their specialization

► **Task-12:** Participation banking staff were given in-class and virtual in-class training programs. 1,100 training programs were organized and attendance of 21,700 persons was achieved from 2002 to 2020. In addition, online class training started for the first time in 2020 with LMS Platform and it was emphasized that the aim was to make these trainings available to 17,000 staff from participation banks and stakeholder institutions. The Association's staff are entitled to attend all the trainings organized. The Association's staff are encouraged to attend the training programs and language courses organized abroad.

■ 4.4 Establishing institutes or research centers for participation banking

4.4.1 Investigating the opportunities for establishing an institute / research center which will work in the area of participation banking, and then planning their establishment

► **Task-14:** For new scientific studies in participation banking, cooperations and protocols were made and visits, events, seminars and certification trainings were organized with Universities / Institutes at both national and international level. No research center was established within the body of the Association. Also, TKBB Central Advisory Board and MUIIEC carried out studies in line with this objective. Research centers were established in Sabahattin Zaim University, Sakarya University and Istanbul University.

■ 4.5 Extending the recognition of the participation banking terminology

4.5.1 Using educational technologies such as e-learning and simulation for the purpose of accurate information sharing and contributing to constitution of a common language

► **Task-15:** In addition to the glossary study which was started within the body of TKBB, online class training services were started via LMS Platform and it was specified that the aim was to organize certification trainings in the new school year on various topics such as Human Resources, Project Management, Foreign Transactions and Customer Management.



Corporate Communications, Perception, and Reputation

Strategy	Action
5.1 Increasing the level of knowledge of the system's philosophy / putting forward the difference from conventional banking	<p>5.1.1 Identifying those factors which cause unfavorable perceptions of participation banking, increasing the transparency in relation to the aforementioned factors and ensuring that the public is informed correctly</p> <p>5.1.2 Developing alternative proposals to the existing practices and terms that had been adopted but were impairing the perception in the participation banking</p> <p>5.1.3 Raising awareness of customers and establishing the contract willpower</p>
5.2 Setting correct marketing strategies	5.2.1 Organizing national and international events aimed at development and recognition of the system whereby a comprehensive promotional campaign on the system's philosophy and practices is carried out
5.3 Ensuring uniformity in participation banking practices	<p>5.3.1 Setting the ethical principles, corporate management principles and practices upon which the system is based, ensuring compliance with religious principles also other than the interest prohibition</p> <p>5.3.2 Managing the perception of participation banking products</p>
5.4 Taking initiatives which will increase the system's credibility	<p>5.4.1 Establishing a communications channel between the participation banking institutions and the Presidency of Religious Affairs</p> <p>5.4.2 Developing the cooperations between the Participation Banks Association of Turkey and participation banks</p>

5.1 Increasing the level of knowledge of the system's philosophy / putting forward the difference from conventional banking

5.1.1 Identifying those factors which cause unfavorable perceptions of participation banking, increasing the transparency in relation to the aforementioned factors and ensuring that the public is informed correctly

► **Task-1:** It was specified that, for the purpose of identification by TKBB of those factors which cause unfavorable perceptions of the participation banking system, a customer in-depth analysis is made twice a year with a perception and sector size representing Turkey, in a way that will include the customer segments as well. It was emphasized that a report was prepared as a result of the research which was carried out, in relation to the current perception of the participation banking and the information and practices requiring transparency towards the society.

5.1.2 Developing alternative proposals to the existing practices and terms that had been adopted but were impairing the perception in the participation banking

► **Task-3:** In order to standardize the terms in participation banking, to ensure content integrity and to regulate the terms causing a perceptual impairment, TKBB Interest-free Finance Glossary of Terms was formed in 2018. Information displays were prepared at broadcasting institutions, explaining the functioning of participation banking.

5.1.3 Raising awareness of customers and establishing the contract willpower

► **Task-5:** A draft version was prepared of the customer information form which indicates the risks that the customers might be exposed to, the fact that the ratios of profit announced are the rates which were recorded in the past, and that there are risks of loss as well, and which will contribute to transparency by being shared with customers at the negotiation stage.

5.2 Setting correct marketing strategies

5.2.1 Organizing national and international events aimed at development and recognition of the system whereby a comprehensive promotional campaign on the system's philosophy and practices is carried out

► **Task-6:** Corporate Communications department was established within the body of TKBB. SWOT analysis study was carried out for the purpose of improving the corporate communications and identifying the areas of development. Based on this study, communications strategy document was prepared and a promotional campaign was carried out. A 10-item Sound Banking content which explains the philosophy and fundamental practices of participation banking was constituted and announced to the public with campaigns on digital platform from 2018 to 2019 and the level of knowledge about the system's principles was increased.

► **Task-7:** For the purpose of explaining and identifying the developments in the sector with a more holistic view, the Katılım Finans Magazine was issued and a web news portal was established with the same name. With TKBB Web TV, practices were carried out for creating awareness among the public. Sponsorship services were provided for the events held in universities in relation to participation banking.

► **Task-8:** Half-day participation banking information programs were organized for

Reference: Turkish Participation Banking Strategy Document (2015-2025)

the organizational departments of the Presidency of Religious Affairs (PRA) throughout Turkey, with Marmara Region being in the first place, with the participation of the PRA, Participation Banks and TKBB. Information meetings were held in 8 cities before the Covid-19 pandemic.

■ 5.3 Ensuring uniformity in participation banking practices

5.3.1 Setting the ethical principles, corporate management principles and practices upon which the system is based, ensuring compliance with religious principles also other than the interest prohibition

► **Task-9:** The ethical principles document in compliance with the participation banking principles was prepared by the Association and sent to BRSA. TKBB Central Advisory Board made reviews on the ethical principles document.

5.3.2 Managing the perception of participation banking products

► **Task-10:** With the Regulation on Introduction of an Amendment to the Regulation on Loan Transactions of Banks, which was published on the Official Gazette of the Republic of Turkey dated 25/01/2019 with the Association's efforts, the fund provision methods of the participation banks were defined and harmonization of terms was ensured.

■ 5.4 Taking initiatives which will increase the system's credibility

5.4.1 Establishing a communications channel between the participation banking institutions and the Presidency of Religious Affairs

► **Task-11:** New members were accepted to the TKBB Central Advisory Board within the body of TKBB with the proposal of the Presidency of Religious Affairs. Significant developments occurred, such as the fact that salaries of the staff of the Presidency of Religious Affairs were paid through participation banks and that the topic of interest was addressed in the khutbahs given.

5.4.2 Developing the cooperations between the Participation Banks Association of Turkey and participation banks

► **Task-12:** It was specified that those natural or legal persons that contributed to the participation banking sector with the innovations they provided were given an award regarding participation banking by the Association. It was emphasized that the cooperation between TKBB and participation banks is developed and their relationship is strengthened with these awards given.



Reference: Turkish Participation Banking Strategy Document (2015-2025)

Some of the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025) were **canceled** pursuant to a decision of TKBB.

Product Range and Development

Strategy	Action
2.1 Increasing the efficiency of products which are already in use	<p>2.1.1 Introducing legislative frameworks on sukuk issuances</p> <p>2.1.3 Introducing legislative frameworks on murabaha</p> <p>2.1.4 Introducing legislative frameworks on tawarruq</p> <p>2.1.5 Introducing legislative frameworks on the financial leasing product</p>
2.2 Diversifying the placement product structure of participation banking system	2.2.2 Developing the legislative infrastructure for the products of musharakah, diminishing musharakah, and mudarabah
2.4 Expanding the fund range of participation banks	2.4.2 Expanding the fund range within the body of banks

■ **2.1 Increasing the efficiency of products which are already in use**

2.1.1 Introducing legislative frameworks on sukuk issuances

- ▶ **Task-6:** Being able to create securitization via residential property finance: It will be possible to constitute a security pool from the residential property finance contained in the assets of participation banks and to issue asset-backed securities based on this pool. It will be beneficial for participation banks to establish a structure in compliance with their own principles and to provide funds by securitization method. Incorporating the real right categories (beneficial ownership) into the civil code for providing ease of implementation in terms of launching special purpose vehicles in our country. A study should be carried out in coordination with CMB on whether or not there is a need in our country for fiduciary ownership and the concept of trust.
- ▶ **Task-9:** Introducing regulations necessary for encouraging the issuance of mudarabah- and musharabah-type sukuk: Sukuk issuance in relation to the mudarabah and musharabah products which are very suitable for sharing risks will make a favorable impact for the development of the sector. For this purpose, participation banks and the Undersecretariat of Treasury are expected to carry out a study on the existing tax-related regulations.
- ▶ **Task-11:** Exempting the asset lease companies from the additional responsibilities and obligations specific to sukuk: In real estate and instrument-based sukuk issuances, all the legal responsibilities rest with the bank as the owner and for this reason, the bank may also be held liable for the applications made for building permits and compulsory accident insurance. Exempting the asset lease companies especially from these responsibilities and obligations pertaining to real estate, within the scope of sukuks, will be a factor which will facilitate the issuances.
- ▶ **Task-14:** Making amendments to the legislation on sukuk regarding the intermediated sukuk transactions: In the case that the asset lease companies used by participation

banks for intermediated sukuk issuances are consolidated, participation banks incur a separate capital obligation due to those assets that are included in the balance sheet's asset items by being taken from those sukuks for which they are not responsible and of which they are not the obligor. For this reason, it is important for paving the way for the real sector's sukuk issuances in the upcoming period to regulate the legislation on sukuk in a way that asset lease companies used in the intermediated sukuk transactions will not be subject to consolidation under IFRS and TFRS 10.

2.1.3 Introducing legislative frameworks on murabaha

- ▶ **Task-18:** Within the scope of general credit agreements and standard contracts, the circumstance of being liable to both buyer and seller for the defects of goods can be regulated under the contract, either within the relevant contract itself or in the annex thereto, and since standard contracts will be put into practice as of 2021, the need for the task which was planned is no longer applicable.

2.1.4 Introducing legislative frameworks on tawarruq

- ▶ **Task-20:** In the markets within the body of Turkish Stock Exchange (Borsa Istanbul), commodity transactions should be exchanged physically.

2.1.5 Introducing legislative frameworks on the financial leasing product

- ▶ **Task-21:** Under the provision contained in the Financial Leasing Law, stipulating that «financial leasing contracts cannot be transferred to any party other than financial leasing companies», sukuk transactions of participation banks should be exempted. To make this possible, Article 26 of the Capital Markets Law should be amended.

Reference: Turkish Participation Banking Strategy Document (2015-2025)

■ 2.2 Diversifying the placement product structure of participation banking system

2.2.2 Developing the legislative infrastructure for the products of musharakah, diminishing musharakah, and mudarabah

► **Task-34:** In order that a rediscount can be made under the periodical assessment reports to be prepared according to the progress of the profit / loss participation investments to be made by participation banks and these calculated rediscounts can be made subject to profit distribution, the Association should carry out the relevant studies. Thus, the projects will receive more demands and more funds will be collected.

■ 2.4 Expanding the fund range of participation banks

2.4.2 Expanding the fund range within the body of banks

► **Task-41:** Providing finance by post-financing method: The necessary studies will be made for the development of this model where participation banks will be positioned as the bank of the importing company and collect the price of the imported product in cash and pay it in a deferred manner, and be able to use this amount until the due date.

Advisory Boards

Strategy	Action
3.1 Constituting the TKBB Central Advisory Board for participation banks	3.1.3 In participation banks with foreign capital, determining the solutions in the cases where the standards in the controlling shareholder's country and in Turkey are not consistent with each other

■ 3.1 Constituting the TKBB Central Advisory Board for participation banks

3.1.3 In participation banks with foreign capital, determining the solutions in the cases where the standards in the controlling shareholder's country and in Turkey are not consistent with each other

► **Task-3:** For participation banks with foreign capital, in the case of any inconsistency between the standards in the controlling shareholder's country and in our country, the advisory committees of banks may apply to TKBB Central Advisory Board. The aforementioned standards will be examined by TKBB Central Advisory Board and alternative solutions will be reported back to the bank advisory committees.



Learning, HR and Certification

Strategy	Action
4.1 Developing open and distance education, undergraduate, postgraduate and Ph.D. programs in relation to participation banking and eliminating the shortage of faculty members	4.1.1 Increasing the number of departments / courses on interest-free banking, opened in universities and open education faculties 4.1.3 Increasing the scholarship, awards and internship opportunities for participation banks
4.2 Constituting a database of persons and works in relation to participation banking and eliminating the shortage of course materials	4.2.1 Determining the database to be constituted in order to increase the number of Turkish academic publications, and the academicians working in this area, and collecting the books / articles together in this data set

■ **4.1** Developing open and distance education, undergraduate, postgraduate and Ph.D. programs in relation to participation banking and eliminating the shortage of faculty members

4.1.1 Increasing the number of departments / courses on interest-free banking, opened in universities and open education faculties

▶ **Task-3:** Although the plan was to incorporate into the curriculum economy and finance courses in at least two faculties of theology, and participation banking & Shariah courses in at least five FEASs, in the 2017-2018 school year, progress was achieved in this area by way of cooperation with the universities.

4.1.3 Increasing the scholarship, awards and internship opportunities for participation banks

▶ **Task-6:** In order to meet the demand for qualified labor needed by the sector, the initial plan was to ensure determination by TKBB and participation banks of the ideal framework of internship programs, but the fact that participation banks provide internship programs within their own body eliminated the need for this plan.

■ **4.2** Constituting a database of persons and works in relation to participation banking and eliminating the shortage of course materials

4.2.1 Determining the database to be constituted in order to increase the number of Turkish academic publications, and the academicians working in this area, and collecting the books / articles together in this data set

▶ **Task-9:** It was planned to make a request for a database containing information on the academicians studying on participation banking and on the studies in this area, with a joint letter to be written by TKBB and BRSA to CHE. The Association aimed to ensure the management of continuous up-to-date status and practicability of the database by making a request from CHE and all the relevant stakeholders to share content for the database which will be constituted. Although there is no systematic database based on information received from CHE, the Association shares with users informative posts through its website.



Reference: Turkish Participation Banking Strategy Document (2015-2025)

From among the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025), the tasks that are ongoing are specified below:

Strategic Objectives	Strategies	Actions	Tasks
Sectoral Strategy and Coordination	1.1 Determining the duties and responsibilities of stakeholders in line the with sector strategies	1.1.3 Determining the duties and responsibilities of public institutions in line with the sector strategies	Task 4, 5
		2.1 Increasing the efficiency of products which are already in use	2.1.1 Introducing legislative frameworks on sukuk issuances 2.1.4 Introducing legislative frameworks on tawarruq 2.1.6 Introducing legislative frameworks on the Qard Hassan product 2.1.8 Introducing legislative frameworks on the sell and lease-back product 2.1.9 Introducing legislative frameworks on participation accounts
Product Range and Development	2.2 Diversifying the placement product structure of participation banking system	2.2.1 Constituting a permanent and independent legislation function within the body of TKBB	Task 31
		2.2.2 Developing the legislative infrastructure for the products of musharakah, diminishing musharakah, and mudarabah	Task 32, 33
Advisory Board	3.1 Constituting the TKBB Central Advisory Board for participation banks	3.1.2 Generation by TKBB Central Advisory Board of standards for products and services	Task 2
Learning, HR and Certification	4.1 Developing open and distance education, undergraduate, postgraduate and Ph.D. programs in relation to participation banking and eliminating the shortage of faculty members	4.1.1 Increasing the number of departments / courses on interest-free banking, opened in universities and open education faculties	Task 2
		4.1.2 Incorporating into programs elective / compulsory courses in the area of interest-free banking in faculties of business administration and in the areas of economy and finance in faculties of theology	Task 4, 5
	4.3 Increasing the number of staff specialized in participation banking and developing the staff competencies	4.3.2 Providing the necessary training to the staff of participation banks and developing the incentive policies necessary for their specialization	Task 13
Corporate Communications, Perception, and Reputation	5.1 Increasing the level of knowledge of the system's philosophy / putting forward the difference from conventional banking	5.1.1 Identifying those factors which cause unfavorable perceptions of participation banking, increasing the transparency in relation to the aforementioned factors and ensuring that the public is informed correctly	Task 2
		5.1.2 Developing alternative proposals to the existing practices and terms that had been adopted but were impairing the perception in the participation banking	Task 4



6 Strategic Objectives for the Period from 2021 to 2025

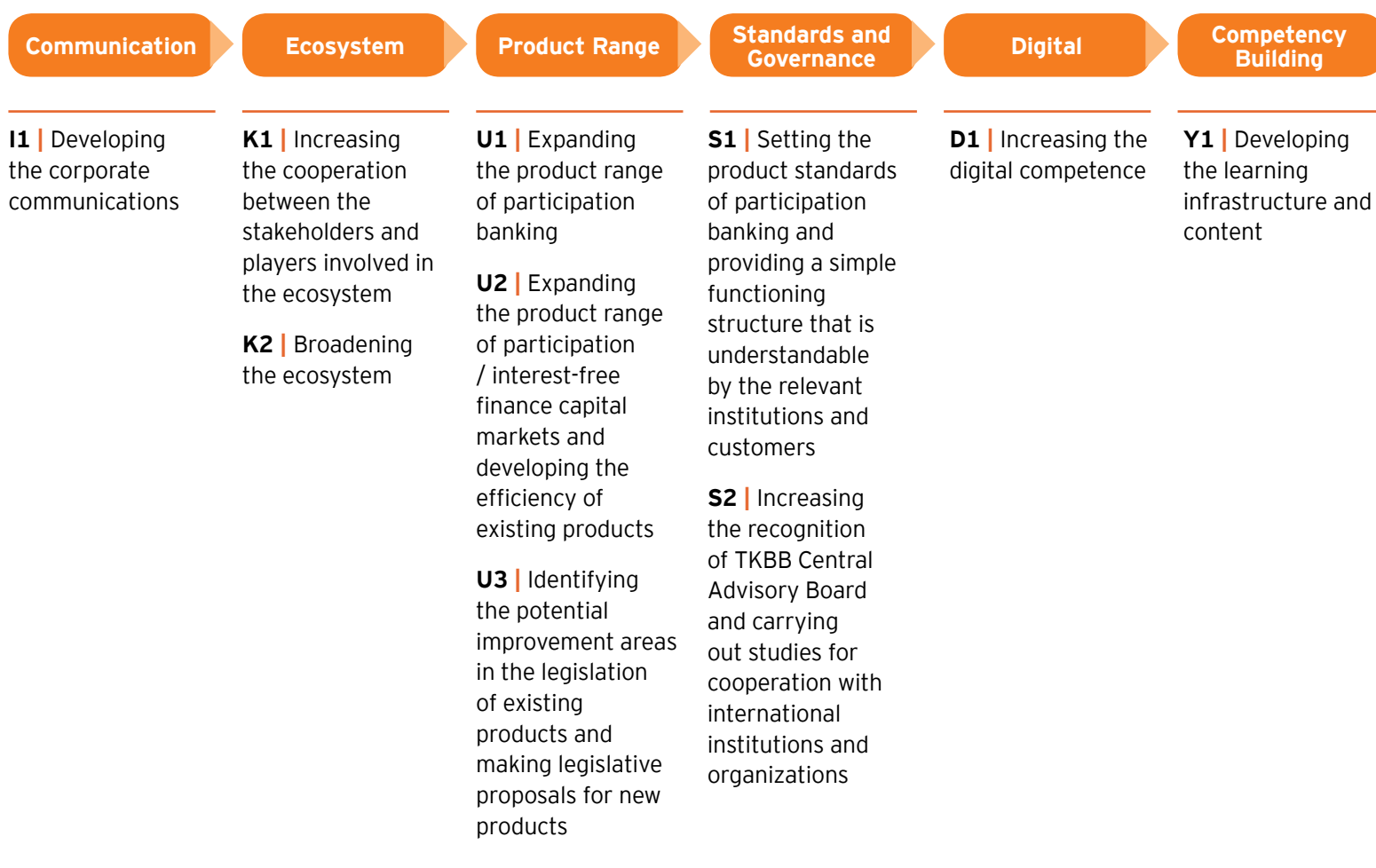
6. STRATEGIC OBJECTIVES FOR THE PERIOD FROM 2021 TO 2025

Change in today’s banking conditions and the changes brought by Covid-19 in corporate and retail banking customers’ behaviors in banking sector caused the Participation Banks Association of Turkey to review its strategic objectives that it had set in 2015. Strengthening the communication with the target customers of participation banking, explaining to the customers in detail the operational processes and functioning of the interest-free finance system, developing the mechanisms for cooperation with the stakeholders of participation banking ecosystem, providing a product range that will meet the needs of customers, and raising the level

of knowledge and awareness of individuals and sector employees, have become the main areas of focus for the next 5 years.

Accordingly, **the Participation Banking Strategy Update Report (2021-2025) set 10 strategies under the 6 main strategic objectives and 23 actions in connection with the strategies.** 21 ongoing tasks that were contained in the Turkish Participation Banking Strategy Document (2015-2025) were also included under the relevant strategy and action headings.

Main Strategic Objectives and Strategies



It is important for stakeholders to work in cooperation with each other while carrying out the strategies and the actions set thereunder, in order that the intended success can be achieved in the new strategic objectives described under the titles of communications, ecosystem, product range, standards and governance, digital, and competency building.

6.1 SWOT Analysis of Turkish Participation Banking

6.1 Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis of Turkish Participation Banking

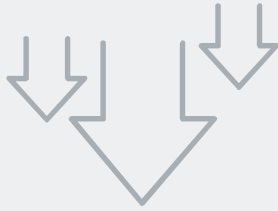
Strengths

1. Experience in the area of participation banking
2. Entry of public banks into the area of participation banking
3. Implementation of fundamental participation banking products (knowledge of products such as participation banking accounts, murabaha and ijarah etc.)
4. Progress made in the legislative infrastructure
5. Sharing of the risk between the parties in the financing operations carried out
6. Provision of participation banking products supporting profit / loss participation and real economic activities



Weaknesses

1. The fact that it is not preferred since it does not guarantee any fixed income
2. Lack of knowledge of investors / savers on participation banking products
3. Relatively high volume of operational costs
4. Persistence of the need in the area of capital
5. The fact that alternative channels have not matured sufficiently
6. Non-existence of secondary in-depth markets in relation to Islamic financial assets



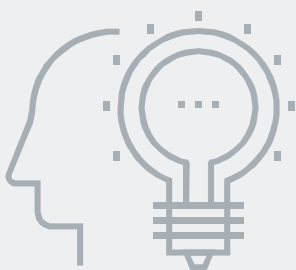
Opportunities

1. Existence of customers who especially abstain from interest-based financial activities due to religious sensitivities
2. Turkey's geographical location which is close to the leading countries in participation banking, such as Gulf Countries and London
3. Increase of cooperation by establishment of joint ATM, joint POS and joint card systems in participation banks
4. Existence of capital inflows into the sector due to the government's support to participation banking
5. The opportunity of making Istanbul a center in the area of Participation Banking and cooperating with Istanbul International Finance Center (IFC Project)
6. Existence of a rapid growth potential in those sectors other than banking, operating with interest-free principles (Islamic FinTech, Insurance, IPS, portfolio management etc.)
7. The opportunity of growth in the area of retail banking
8. The fact that digitalization has gained great importance in the banking sector



Threats

1. Continuation of the impact of the pandemic in the mid- and long-term
2. The fact that Participation Banking has fallen behind of the new trends in digitalization and customer experience
3. The decrease in the quality of assets due to the unfavorable conditions emerged in the economic outlook
4. The risk of being unable to correctly inform the sector stakeholders, customers and the government of the different opinions which might arise in relation to the compliance of the products to be newly developed in participation banking sector with shariah
5. The difficulty of competing with the product and service range of conventional banks
6. The fact that certain FinTech products which newly entered the market pose a threat also to the participation banks in various banking areas, as much as they pose a threat to conventional banks



6.2 Actions Necessary to Achieve the Strategic Objectives

Table 6.2.1: Actions Necessary to Achieve the Strategic Objectives

Strategic Objectives	#	Strategies	Start-End Date	Number of Actions
Communication	I1	Developing corporate communications	1 st Quarter of 2021 - 2 nd Quarter of 2022	2
Ecosystem	K1	Increasing the cooperation between the stakeholders and players involved in the ecosystem	1 st Quarter of 2021 - 4 th Quarter of 2022	3
	K2	Broadening the ecosystem	1 st Quarter of 2023 - 4 th Quarter of 2024	2
Product Range	U1	Increasing the product range of participation banking	1 st Quarter of 2021 - 4 th Quarter of 2024	3
	U2	Increasing the product range of participation / interest-free finance capital markets and developing the efficiency of existing products	2 nd Quarter of 2021 - 4 th Quarter of 2022	2
	U3	Identifying the potential improvement areas in the existing product legislation and making legislation proposals for new products	1 st Quarter of 2021 - 4 th Quarter of 2024	2
Standards and Governance	S1	Setting the product standards of participation banking and ensuring a simple functioning structure which is understandable by the relevant institutions and customers	1 st Quarter of 2021 - 3 rd Quarter of 2025	2
	S2	Increasing the recognition of TKBB Central Advisory Board and making studies for cooperation with international institutions and organizations	1 st Quarter of 2021 - 4 th Quarter of 2022	1
Digital	D1	Increasing the digital competency	1 st Quarter of 2021 - 2 nd Quarter of 2022	2
Competency Building	Y1	Developing the learning infrastructure and content	1 st Quarter of 2021 - 4 th Quarter of 2024	4
		10 strategies		23 actions

6.2 Actions Necessary to Achieve the Strategic Objectives

Strategies and Actions of Communication Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Communications	I1	Developing corporate communications	2

I1. Developing corporate communications

I1.1 Updating the corporate communications strategy in accordance with the vision and needs of 2025: Corporate communications strategy will be prepared in accordance with the vision and needs of 2025 in a way to improve the ecosystem stakeholders' and customers' perception of participation banking and to increase their awareness*, and to raise the internal communications to a higher level. In accordance with the objectives which are set for 2025, a communications plan will be made, to be aimed at those practices which will improve and strengthen the perception about national and international platforms of Turkish participation banking and interest-free finance ecosystem.

The task no. 2 under the action 5.1.1 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Corporate Communications, Perception and Reputation, will continue to be applicable:

▲ The task, which was specified as "a section or a separate platform should be constituted on the website of TKBB where the differences between participation banks and conventional banks and the operational model are explained in detail", was revised: A section or a separate platform will be constituted on the website of TKBB where the functioning of the operational model specific to participation banking and the fundamental principles of the system are explained.

I1.2 Determining and monitoring the performance criteria for monitoring the corporate communications strategy: Criteria for efficiently measuring the performance of the communications strategy and plan which were constituted will be set and regularly monitored.

Strategies and Actions of Ecosystem Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Ecosystem	K1	Increasing the cooperation between the stakeholders and players involved in the ecosystem	3
	K2	Broadening the ecosystem	2

K1. Increasing the cooperation between the stakeholders and players involved in the ecosystem

K1.1 Determining the potential needs of the stakeholders in the ecosystem and carrying out studies to meet these needs: For the purpose of ensuring the development of participation banking and the stakeholders in its ecosystem, working closely and establishing cooperation mechanisms with real sector-based institutions that are in compliance with the participation banking system (for example, TMEX, the Export Credit Bank of Turkey) will attract new customers to participation banking and increase the loyalty of the existing customers, and studies will be carried out to identify and meet the needs for improving the operational productivity of participation banking.

The task no. 4 under the action 1.1.3 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Sectoral Strategy and Coordination will continue to be applicable:

▲ For the purpose of encouraging the opening of branches in underpopulated or

▲ Refers to the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025), which are still ongoing.

* Constituting channels where the main content and functioning of the products implemented by countries such as Malaysia etc. are broadcast.

underdeveloped places, studies and interviews should be carried out to calculate the "Branch Operating Fee" according to the relevant branch's assets size, and not based upon the population size.

K1.2 Raising the knowledge and awareness of customer relations managers in the participation banking sector about the participation insurance products: For the purpose of correctly informing the participation banking customers about the participation insurance products, it will be ensured that bank customer relations managers have accurate knowledge about the participation insurance products and that their awareness about the products are raised.

K1.3 Developing the areas of cooperation between participation banks and insurance companies in the area of participation banking: Cooperation between participation banks and participation insurance companies is important to raise awareness about the interest-free products contained in the sector and to improve their sales. Development of the areas of cooperation will be given more weight in order to increase the general volume of the participation insurance premiums to be produced through participation banking customers and to meet the needs of participation banking customers.

K2. Broadening the ecosystem

K2.1 Investigating the areas of cooperation with the institutions in different sectors on the basis of banking products and services: By investigating the institutions in those different sectors where the participation banking products and services can be used, the use of the products and services and the market share in participation banking will be increased.

K2.2 Making planning together with sector stakeholders to expand the area of cooperation contemplated to be made with TMEX: Efforts for identification of new areas of cooperation with the Turkish Mercantile Exchange which operates based on physical commodities, and the product development activities, will be carried out with contribution of the stakeholders in the participation banking ecosystem.

Strategies and Actions of Product Range Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Product Range	U1	Increasing the product range of participation banking	3
	U2	Increasing the product range of participation / interest-free finance capital markets and developing the efficiency of existing products	2
	U3	Identifying the potential improvement areas in the existing product legislation and making legislation proposals for new products	2

U1. Increasing the product range of participation banking

U1.1 Generating alternative product types to expand the participation banking market:

Sukuk implementations will be diversified to increase the product portfolio to be provided to customers, product infrastructure studies will be carried out where capital partnership, venture capital and variable dividends can be provided, products which are in compliance with the Environment, Social and Governance (ESG) to be used in participation banking will be developed, liquidity management products will be created and use of real estate certificates will be increased to balance the assets-liabilities management of participation banking, the products and services in the cooperative system will be made substitutable by participation banks (for example, housing and car loan), and products and services aimed at increasing the role of participation banking in the services provided by state-funded institutions (for example, Turkish Post and General Directorate of Tea Enterprises), will be conceptualized.

U1.2 Carrying out studies for developing new products and services needed in the area of foreign trade:

Identification studies will be carried out for development of participation banking products and services specific to foreign trade, which is one of the areas where participation banking sector is deemed to have development potential, in those fundamental areas such as fund provision, foreign currency use, and cross sales of products.

U1.3 Incorporating product types other than agricultural products into the product of tawarruq which is planned to be carried out with TMEX and carrying out studies on the product types that can be newly developed additionally in the product of tawarruq:

Those product types other than agricultural products such as natural gas and non-precious metals, which have a potential area of use in the product of tawarruq, shall be assessed jointly with TMEX. Joint studies will be carried out with TMEX on those product types that can be additionally used in the product of tawarruq and alternative products which will meet the financing needs of customers will be constituted.

U2. Increasing the product range of participation / interest-free finance capital markets and developing the efficiency of existing products

U2.1 Commencing joint studies with participation banks and sector stakeholders on the development of capital market products:

For the purpose of ensuring efficient use of participation banking capital market products, joint studies will be carried out with stakeholders for identification of those aspects of the existing products which should be improved and for new product developments. (refinancing of existing projects, financing of new projects, sustainable sukuk, musharakah model etc.)

U2.2 Planning actions with participation banks which will increase the depth of the existing products in secondary markets:

Actions will be planned, aimed at increasing the volume in secondary markets of the existing products such as sukuk. (Developing collective

investment products and sukuk products for individual investors etc.)

U3. Identifying the potential improvement areas in the existing product legislation and making legislation proposals for new products

U3.1 Carrying out studies for improvement of the legislative infrastructures which will facilitate the use and grow the market share of the products existing in participation banking (Sukuk, Murabaha, Tawarruq, Financial Leasing, Qard Hassan, Musharakah, Diminishing Musharakah, Mudarabah, Sell and Lease-Back Products and Participation Accounts):

The tasks no. 4, 7, 8, 10 and 12 under the action 2.1.1 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Product Development and Range, will continue to be applicable:

- ▲ **Task-4:** Conveniences provided to the public by the legislation on sukuk issuance should be provided to the private sector as well.
- ▲ **Task-7:** For providing ease of implementation in launching Special Purpose Vehicles, a proposal for making an amendment to the Civil Code should be prepared in order that economic rights and authorities (beneficial ownership) can be transferred without the requirement of change in land registry records.
- ▲ **Task-8:** Fiduciary institutions (trusts) which have assets separate from the person that incorporated them and which operate in favor of the investor should be clearly defined in the legislation.
- ▲ **Task-10:** Studies should be carried out for cancellation of the permits required from the banks with foreign capital in the real estate transfers in sukuk issuance.
- ▲ **Task-12:** Regulations should be made for the valuation of the relevant real estate in the case of default in sukuk issuances.

The task no. 19 under the action 2.1.4 which is contained in the objective of Product Range and Development will continue:

▲ **Task-19:** Necessary regulations should be made in order that capital market instruments can be used in tawarruq transactions with the necessary amendment to the legislation.

The task no. 25 under the action 2.1.6 which is contained in the objective of Product Range and Development will continue:

▲ **Task-25:** Valuations and studies should be carried out to provide Qard Hassan to designated individuals in need and companies with a high rating, within specific limits and due dates.

The task no. 27 under the action 2.1.8 which is contained in the objective of Product Range and Development will continue:

▲ **Task-27:** Necessary studies should be carried out to ensure that tax incentives will cover natural individuals as well (Sell and Lease-Back) and that a uniform opinion is adopted and standard practices are developed among the advisory boards on sell and lease-back contracts.

The task no. 29 under the action 2.1.9 which is contained in the objective of Product Range and Development will continue:

▲ **Task-29:** Interviews should be made for the purpose of making amendment to the legislation on the calculation of SDIF premium for the participation accounts of participation banks.

The task no. 31 under the action 2.2.1 which is contained in the objective of Product Range and Development will continue:

▲ **Task-31:** The elements which are obligatory to be contained in the contracts in relation to products should be determined, arbitration procedures should be carried out, and standard type contracts should be prepared.

The tasks no. 32 and 33 under the action 2.2.2 which is contained in the objective of Product Range and Development will continue:

▲ **Task-32:** The TKBB legislation function to be constituted should describe in detail the article 48/2 of the Banking Law (profit / loss participation) and carry out a study and prepare a proposal on the follow up of the loan risk of the aforementioned products, on how they can be recognized and on how they can be included into stock exchange transactions.

▲ **Task-33:** Studies should be carried out to ensure that the Ministry of Finance will make the necessary regulations for development of the product of diminishing musharakah which is used in housing and car financing, for the purpose of preventing double taxation and additional title deed fees during the transfer of ownership of the asset between the bank and the customer.

U3.2 Preparing legislation proposals for the participation products not existing in the area of capital market: Analyses will be planned regarding the needs for legislation for development of participation banking products in capital markets.

Strategies and Actions of Standards and Governance Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Standards and Governance	S1	Setting the product standards of participation banking and ensuring a simple functioning structure which is understandable by the relevant institutions and customers	2
	S2	Increasing the recognition of TKBB Central Advisory Board and making studies for cooperation with international institutions and organizations	1

▲ Refers to the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025), which are still ongoing.

■ **S1.** Setting the product standards of participation banking and ensuring a simple functioning structure which is understandable by the relevant institutions and customers

S1.1 TKBB Central Advisory Board's setting and sharing of the standards for implementations of products with the ecosystem stakeholders: For the purpose of ensuring a uniform and correct use and functioning of the products in participation banking and constituting an environment of confidence for the investor and the customer, TKBB Central Advisory Board will prepare and share with stakeholders standards for implementations of products.

The task no. 5 under the action 1.1.3 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Sectoral Strategy and Coordination will continue to be applicable:

▲ As a result of the studies to be made by the relevant institutions, the international principles and standards which may increase the weight of Turkey in the sector of the interest-free finance and increase its credibility in the eyes of the investors should be incorporated into the domestic law and implemented. Standards specific to Turkey should be set in those areas deemed necessary.

The task no. 2 under the action 3.1.2 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Advisory Boards will continue:

▲ TKBB Central Advisory Board, which periodically convenes once a month or upon the request by banks, which consists of persons who are experts in the areas of Islamic law, finance, economy, accounting and law, and which takes as an example in its practices the Islamic law (fiqh) academy models applied globally, should set the standards for the implementation of products and inform the banks of these standards. The "Product Development

Committee” which will be constituted within the body of TKBB should, upon the request by banks, examine and express an opinion on the compliance and implementation standards of the new products to be incorporated into the system.

S1.2 Strengthening the transparency and improving the governance mechanism in the functioning of participation banking ecosystem in accordance with ethical rules: Studies will be carried out to inform the stakeholders and customers in participation banking ecosystem of the ethical rules of participation banking and of the functioning of the system and the governance mechanism will be strengthened.

■ **S2.** Increasing the recognition of TKBB Central Advisory Board and making studies for cooperation with international institutions and organizations

S2.1 Carrying out studies which will develop the communications strategy of TKBB Central Advisory Board and strengthen its perception in national and international channels: Studies will be carried out to inform the stakeholders and customers in participation banking ecosystem of the ethical rules of participation banking and of the functioning of the system and the governance mechanism will be strengthened. It will be aimed to efficiently carry out the communications activities necessary for development of cooperation of TKBB Central Advisory Board with national and international institutions and organizations (for example, AAOIFI, CIBAFI, IIRA, IFSB, IIFM etc.).

Strategies and Actions of Digital Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Digital	D1	Increasing the digital competency	2

■ **D1.** Increasing the digital competency

D1.1 Preparing the digital roadmap of participation banking: A digital-content roadmap will be prepared, whereby corporate and retail banking customers are informed of the fundamental principles, standards and benefits of participation banking system and products.

D1.2 Analyzing the impacts of digitalization on channel management in the area of participation banking and determining the areas where digital channels will be used effectively: The impacts of digitalization on the traditional channels of participation banking will be analyzed, the changes in customer behaviors will be identified, and the areas of opportunity and implementation will be determined.

Strategies and Actions of Competency Building Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
Competency Building	Y1	Developing the learning infrastructure and content	4

■ **Y1.** Developing the learning infrastructure and content

Y1.1 Developing cooperations with universities and educational institutions to develop open and distance education, undergraduate, postgraduate and doctorate programs:

The task no. 2 under the action 4.1.1 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Learning, HR and Certification, will continue:

▲ The needs for faculty members and other needs of the universities which are thinking of incorporating the relevant courses into their program should be identified.

The tasks no. 4 and 5 under the action 4.1.2 which is contained in the objective of Learning, HR and Certification, will continue:

▲ **Task-4:** Minor or double major implementations should be provided and encouraged between the departments of Theology and Law and Economy. For this purpose, the Association should contact with the relevant universities upon the request by participation banks. The requests received should be discussed in the agenda of meetings of university senates and then sent to CHE. Officials of participation banks will attend the courses at certain intervals as a guest tutor and the number of joint seminars, conferences and similar programs with universities will be increased.

▲ **Task 5:** Officials of participation banks will attend the courses at certain intervals as a guest tutor and the number of joint seminars, conferences and similar programs with universities should be increased.

▲ Refers to the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025), which are still ongoing.

6.2 Actions Necessary to Achieve the Strategic Objectives

Y1.2 Preparing and launching online and video-based training programs in the area of participation banking, in coordination with TKBB: With the adaptation to the new normal after the pandemic, for the purpose of ensuring easy access to the trainings needed by the association and sector stakeholders, online and video-based training programs will be prepared and made available in coordination of TKBB and in cooperation with sector stakeholders.

Y1.3 Preparing and launching technical training and on-the-job training programs to constitute qualified staff in the area of participation banking

The task no. 13 under the action 4.3.2 which is contained in the Turkish Participation Banking Strategy Document (2015-2025) in the objective of Learning, HR and Certification, will continue:

▲ With the organization of the Association, provision of trainings to the relevant staff by academicians from foreign advisory boards and / or universities should be planned.

The task no. 4 under the action 5.1.2 which is contained in the objective of Corporate Communications, Perception and Reputation will continue:

▲ For the purpose of ensuring that the terms and implementations constituted in relation to the participation banking system are understood and learned by staff, trainings should be organized within participation banks.

Y1.4 Constituting nano-degree* programs on educational platforms in relation to different issues in the area of participation banking ecosystem: For the purpose of increasing the recognition of the products and services contained in the participation banking ecosystem and correctly communicating with customers, studies will be carried out on the training programs focused on those persons and institutions intending to improve themselves on participation banking.

Strategies and Actions of Strategic Program Management Strategic Objective

Strategic Objectives	#	Strategies	Number of Actions
PMO	P1	Constituting strategic program management	2

■ **P1. Constituting strategic program management**

P1.1 Establishing the project management office and designating the project managers: For the monitoring of the Strategies and Actions for 2025 of Participation Banks, a project management office will be established within the body of TKBB.

P1.2 Setting the initiatives and monitoring them in accordance with the objectives: For the purpose of ensuring an efficient monitoring of strategic objectives, a regular monitoring mechanism will be put into practice.



▲ Refers to the tasks contained in the Turkish Participation Banking Strategy Document (2015-2025), which are still ongoing.

* Nano-degree program: A distant training program which has a topic-based and systematic approach in order that persons can achieve their objectives



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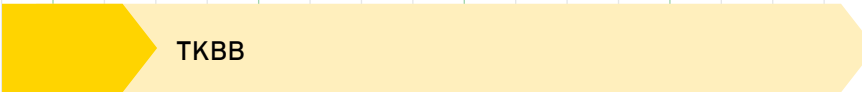
Roadmap for Strategic Objectives

7. ROADMAP FOR STRATEGIC OBJECTIVES






Achievement of the strategic objectives of communication, ecosystem, product range, standards and governance, digital, and competency building, is dependent on the coordination of all the stakeholders within a schedule, and on achievement of the strategies set and the actions contained thereunder.

Strategic Objectives	2021				2022				2023				2024				2025			
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
Communication (I)	Developing corporate communications								1 strategy 2 actions											
Ecosystem (K)	Increasing the cooperation between the stakeholders and players involved in the ecosystem																2 strategies 3 actions			
Product Range (U)	Increasing the product range of participation banking (diversifying the sukuk products, developing capital partnership and venture capital products, constituting products that are in compliance with ESG (Environment, Social and Governance), developing liquidity management products and increasing the use of real estate certificates)																3 strategies 7 actions			
	Increasing the product range of participation / interest-free finance capital markets and developing the efficiency of existing products								Identifying the potential improvement areas in the existing product legislation and making legislation proposals for new products											
Standards and Governance (S)	Setting the product standards of participation banking and ensuring a simple functioning structure which is understandable by the relevant institutions and customers																2 strategies 3 actions			
	Increasing the recognition of TKBB Central Advisory Board and making studies for cooperation with international institutions and organizations																			
Digital (D)	Increasing the digital competency								1 strategy 2 actions											
Competency Building (Y)	Developing the learning infrastructure and content																1 strategy 4 actions			
Constituting strategic program management									1 strategy 2 actions											


Actions of Communication Strategic Objective


Communication Actions	2021				2022				2023				2024				2025			
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
I1.1 Updating the corporate communications strategy in accordance with the vision and needs of 2025					TKBB															
I1.2 Determining and monitoring the performance criteria for monitoring the corporate communications strategy																				

Actions of Ecosystem Strategic Objective

Ecosystem Actions	2021				2022				2023				2024				2025				
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	
K1.1 Determining the potential needs of the stakeholders in the ecosystem and carrying out studies to meet these needs																					
K1.2 Raising the knowledge and awareness of customer relations managers in the participation banking sector about participation insurance products								Participation Banks													
K1.3 Developing the areas of cooperation between participation banks and insurance companies in the area of participation banking										TKBB											
K2.1 Investigating the areas of cooperation with the institutions in different sectors on the basis of banking products and services																	TKBB				
K2.2 Making planning together with sector stakeholders to expand the area of cooperation contemplated to be made with TMEX													TKBB								

X: Refers to the party which is accountable for the action.

 Refers to the start and end dates of actions.

 Refers to the continuous actions.

Actions of Product Range Strategic Objective

Product Range Actions	2021				2022				2023				2024				2025			
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
U1.1 Generating alternative product types to expand the participation banking market	TKBB																			
U1.2 Carrying out studies for developing new products and services needed in the area of foreign trade					TKBB															
U1.3 Incorporating product types other than agricultural products into the product of tawarruq which is planned to be carried out with TMEX and carrying out studies on the product types that can be newly developed additionally in the product of tawarruq					TKBB								TMEX							
U2.1 Commencing joint studies with the association of participation banks and sector stakeholders on the development of capital market products	TKBB																			
U2.2 Planning actions with participation banks which will increase the depth of the existing products in secondary markets					TKBB															
U3.1 Carrying out studies for improvement of the legislative infrastructures which will facilitate the use and grow the market share of the products existing in participation banking (Sukuk, Murabaha, Tawarruq, Financial Leasing, Qard Hassan, Musharakah, Diminishing Musharakah, Mudarabah, Sell and Lease-Back Products and Participation Accounts)	TKBB																			
U3.2 Preparing legislation proposals for the participation products not existing in the area of capital market									TKBB											

X: Refers to the party which is accountable for the action.

■ Refers to the start and end dates of actions.

■ Refers to the continuous actions.

Actions of Standards and Governance Strategic Objective

Standards and Governance Actions	2021				2022				2023				2024				2025			
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
S1.1 TKBB Central Advisory Board's setting and sharing of the standards for implementations of products with the ecosystem stakeholders																				
S1.2 Strengthening the transparency and improving the governance mechanism in the functioning of participation banking ecosystem in accordance with ethical rules																				
S2.1 Carrying out studies which will develop the communications strategy of TKBB Central Advisory Board and strengthen its perception in national and international channels																				

Actions of Digital Strategic Objective





Digital Actions	2021				2022				2023				2024				2025			
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
D1.1 Preparing the digital roadmap of participation banking																				
D1.2 Analyzing the impacts of digitalization on channel management in the area of participation banking and determining the areas where digital channels will be used effectively																				

X: Refers to the party which is accountable for the action.


Refers to the start and end dates of actions.

Refers to the continuous actions.

Actions of Competency Building Strategic Objective

Competency Building Actions	2021				2022				2023				2024				2025				
	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	
Y1.1 Developing cooperations with universities and educational institutions to develop open and distance education, undergraduate, postgraduate and doctorate programs					TKBB																
Y1.2 Preparing and launching online and video-based training programs in the area of participation banking, in coordination with TKBB					TKBB																
Y1.3 Preparing and launching technical training and on-the-job training programs to constitute qualified staff in the area of participation banking										TKBB											
Y1.4 Constituting nano-degree* programs on educational platforms in relation to different issues in the area of participation banking ecosystem																					TKBB

X: Refers to the party which is accountable for the action.

 Refers to the start and end dates of actions.

 Refers to the continuous actions.

* Nano-degree program: A distant training program which has a topic-based and systematic approach in order that persons can achieve their objectives

Responsibility Matrix of the Strategic Objective of Communication

Communication Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
I1.1 Updating the corporate communications strategy in accordance with the vision and needs of 2025	A & R	R										C & I							
I1.2 Determining and monitoring the performance criteria for monitoring the corporate communications strategy	A & R	C & I										C & I							

Responsibility Matrix of the Strategic Objective of Ecosystem

Ecosystem Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
K1.1 Determining the potential needs of the stakeholders in the ecosystem and carrying out studies to meet these needs	A & R	R	C	C	C	C	C	I	I	I	C	I	I	I	C & I	C	I	I	C
K1.2 Raising the knowledge and awareness of customer relations managers in the participation banking sector about participation insurance products	C & I	A & R	C											I		I			
K1.3 Developing the areas of cooperation between participation banks and insurance companies in the area of participation banking	A & R	R	R											I		R			
K2.1 Investigating the areas of cooperation with the institutions in different sectors on the basis of banking products and services	A & R	C						C	C			C & I					I		
K2.2 Making planning together with sector stakeholders to expand the area of cooperation contemplated to be made with TMEX	A & R	R		C	R							C							

Note: R: Responsible; A: Accountable; C: Consultant; I: Informed

Responsibility Matrix of the Strategic Objective of Product Range

Product Range Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
U1.1 Generating alternative product types to expand the participation banking market	A & R	R								C		C	C		C				
U1.2 Carrying out studies for developing new products and services needed in the area of foreign trade	A & R	R				C			C	C		I							
U1.3 Incorporating product types other than agricultural products into the product of tawarruq which is planned to be carried out with TMEX and carrying out studies on the product types that can be newly developed additionally in the product of tawarruq	R	R		C	A & R							C	C		C & I				
U2.1 Commencing joint studies with the association of participation banks and sector stakeholders on the development of capital market products	A & R	R		C						C	I		R		R				
U2.2 Planning actions with participation banks which will increase the depth of the existing products in secondary markets	A & R	R		R						R			R						
U3.1 Carrying out studies for improvement of the legislative infrastructures which will facilitate the use and grow the market share of the products existing in participation banking (Sukuk, Murabaha, Tawarruq, Financial Leasing, Qard Hassan, Musharakah, Diminishing Musharakah, Mudarabah, Sell and Lease-Back Products and Participation Accounts)	A & R	R		C					R	R		R	R						
U3.2 Preparing legislation proposals for the participation products not existing in the area of capital market	A & R	R		R								R	R		R				

Note: R: Responsible; A: Accountable; C: Consultant; I: Informed

Responsibility Matrix of the Strategic Objective of Standards and Governance

Standards and Governance Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
S1.1 TKBB Central Advisory Board's setting and sharing of the standards for implementations of products with the ecosystem stakeholders	A & R	I							C & I	C & I	C & I	C & I	C & I	C & I			C		
S1.2 Strengthening the transparency and improving the governance mechanism in the functioning of participation banking ecosystem in accordance with ethical rules	A & R	I									C & I	C & I	C & I	C & I					
S2.1 Carrying out studies which will develop the communications strategy of TKBB Central Advisory Board and strengthen its perception in national and international channels	A & R	I																	

Responsibility Matrix of the Strategic Objective of Digital

Digital Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
D1.1 Preparing the digital roadmap of participation banking	A & R	R																	
D1.2 Analyzing the impacts of digitalization on channel management in the area of participation banking and determining the areas where digital channels will be used effectively	A & R	R																	

Note: R: Responsible; A: Accountable; C: Consultant; I: Informed

Responsibility Matrix of the Strategic Objective of Competency Building

Competency Building Actions	TKBB	Participation Banks	Participation Insurance Companies	BIST	TMEX	Export Credit Bank of Turkey	IFC	Presidential Finance Office	Ministry of Treasury and Finance	Central Bank	POA	BRSA	CMB	IPPRSA	TCMA	IAT	HCRA	CHE	Universities
Y1.1 Developing cooperations with universities and educational institutions to develop open and distance education, undergraduate, postgraduate and doctorate programs	A	I																R	C
Y1.2 Preparing and launching online and video-based training programs in the area of participation banking, in coordination with TKBB	A & R	C																	
Y1.3 Preparing and launching technical training and on-the-job training programs to constitute qualified staff in the area of participation banking	A & R	R																	
Y1.4 Constituting nano-degree* programs on educational platforms in relation to different issues in the area of participation banking ecosystem	A & R	C																	

Note: R: Responsible; A: Accountable; C: Consultant; I: Informed

* Nano-degree program: A distant training program which has a topic-based and systematic approach in order that persons can achieve their objectives



References
Lists of Tables and Graphs
List of Abbreviations

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- Capital Markets Board
- Export Credit Bank of Turkey
- Insurance Association of Turkey (IAT)
- Istanbul International Finance Center (IFC)
- Katılım Emeklilik
- KT Portföy
- Kuveyt Türk Katılım Bankası
- Marmara University Institute of Islamic Economics and Finance (MUIIEC)
- Ministry of Treasury and Finance of the Republic of Turkey
- Neova Katılım Sigorta
- Presidential Finance Office of the Republic of Turkey
- TKBB Central Advisory Board
- Turkish Mercantile Exchange (TMEX)
- Turkish Stock Exchange (Borsa Istanbul)
- Türkiye Emlak Katılım Bankası
- Türkiye Finans Katılım Bankası
- Türkiye Sigorta
- Vakıf Katılım Bankası
- Ziraat Katılım Bankası

Lists of Tables and Graphs

List of Graphs

Graph 1.1.1: Breakdown of IFSI by Region (%), 2019

Graph 1.1.2: Global Interest-free Banking Assets by Country, 3rd Quarter of 2019

Graph 1.1.3: Interest-free Banking Assets Sizes and Penetration Rates in Selected Countries, 3rd Quarter of 2019

Graph 1.1.4: Global Sukuk Issuance Volume, 2019 (billion USD)

Graph 1.1.5: Sovereign Sukuk Issuance Volume in Selected Countries, 2019 (million USD)

Graph 1.1.6: Corporate Sukuk Issuance Volume in Selected Countries, 2019 (million USD)

Graph 1.2.1: Number of Islamic Banks in Western Countries, 2015

Graph 1.3.1: Total Assets of Participation Banking and Its Share in Total Banking Assets (million Turkish Liras, %)

Graph 1.3.2: Market Shares of Turkish Participation Banks, 3rd Quarter of 2020

Graph 1.3.3: Funds Collected (million Turkish Liras)

Graph 1.3.4: Return on Equity (ROE)

Graph 1.3.5: Return on Assets (ROA)

Graph 1.3.6: Sukuk Issuance in Turkey by Year (million Turkish Liras)

Graph 1.3.7: Total Sukuk Issuance Volumes by Bank, November 2020

Graph 1.3.8: Total Number of Branches of Participation Banks

Graph 1.3.9: Total Number of Staff of Participation Banks

Graph 3.1.1: Development of the Amount of Funds Collected in Participation Banking in the Covid-19 Period (billion Turkish Liras)

Graph 3.2.1: Turkish Internet Banking Transaction Volume (billion Turkish Liras)

Graph 3.2.2: Number of Active Digital Banking Customers of Participation Banking (thousand persons)

Graph 3.2.3: Digital Channels Transaction Volume of Participation Banking (billion Turkish Liras)

Graph 4.1 : Total Assets Size of Participation Banks based on the Scenario of a Market Share of 15% (billion Turkish Liras)

Graph 5.1 : Current Status of the Tasks Contained in the Turkish Participation Banking Strategy Document (2015-2025)

List of Tables

Table 1.1.1: Breakdown of the Global IFSI by Segment and Region, 2019 (billion USD)

Table 1.1.2: Comparison of Average Assets Sizes of Islamic Banks and Conventional Banks, 2019

Table 1.2.1: Selected Markets in Global Interest-free Banking

Table 1.3.1: Capital Adequacy Standard Ratio by Bank Type (%)

Table 2.2.1: Methodology for Updating the Participation Banking Strategy Roadmap

Table 2.2.2: The Principal System Players and Stakeholders of Turkish Participation Banking Sector

Table 3.2.1: Numbers of Active Digital Banking Customers in Turkey

Table 3.3.1: TKBB - IFC Tasks Current Status Table

Table 4.1 : Participation Banking Balance Sheet Items based on the Scenario of a Market Share of 15%

Table 6.2.1: Actions Necessary to Achieve the Strategic Objectives

List of Abbreviations (1/2)

1	ABG	Albaraka Banking Group
2	AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
3	ASBISINDO	Indonesian Sharia Bank Association
4	ATM	Automated Teller Machine
5	UAE	United Arab Emirates
6	BRSA	Banking Regulation and Supervision Agency
7	IPS	Individual Pension System
8	BIST	Turkish Stock Exchange (Borsa Istanbul)
9	BMI	Bank Muamalat Indonesia
10	CIBAFI	General Council for Islamic Banks and Financial Institutions
11	CIMA	Chartered Institute of Management Accountants
12	CISI	Chartered Institute for Securities & Investment
13	TCIP	Turkish Natural Catastrophe Insurance Pool
14	PRA	Presidency of Religious Affairs
15	HCRA	High Council for Religious Affairs
16	DSN	National Sharia Council
17	ELUS	Electronic Warehouse Receipts
18	ESG	Environment, Social and Governance
19	FAA	Financial Accreditation Agency
20	IFCB	Interest-free Finance Coordination Board
21	FinTech	Financial Technology
22	FSA	Financial Services Authority
23	GDP	Gross Domestic Product
24	SWOT	Strengths-Weaknesses-Opportunities-Threats
25	HM	Her Majesty
26	IDB	Islamic Development Bank
27	IFQ	Islamic Finance Qualification
28	IFRS	International Financial Reporting Standards
29	IFSA	Islamic Financial Services Act
30	IFSB	Islamic Financial Services Board
31	IICRA	International Islamic Center for Reconciliation and Arbitration
32	IIFM	International Islamic Finance Market
33	IILM	International Islamic Liquidity Management Corporation
34	INCEIF	International Center for Education in Islamic Finance
35	IFC	Istanbul International Finance Center
36	FEAS	Faculty of Economic and Administrative Sciences

List of Abbreviations (2/2)

37	HR	Human Resources
38	VAT	Value Added Tax
39	POA	Public Oversight, Accounting and Auditing Standards Authority
40	LMS	Learning Management Systems
41	MUIIEC	Marmara University Institute of Islamic Economics and Finance
42	NCB	The National Commercial Bank
43	OJK	Indonesia Financial Services Authority
44	SFH	Special Finance House
45	PMO	Project Management Office
46	POS	Point of Sale
47	RM	Relations Manager
48	ROA	Return on Assets
49	ROE	Return on Equity
50	SAC	The Shariah Advisory Council of Bank Negara Malaysia
51	SC	Securities Commission Malaysia
52	SECP	Securities & Exchange Commission of Pakistan
53	IPPRSA	Insurance and Private Pensions Regulatory and Supervisory Agency
54	CMB	Capital Markets Board
55	AIP	Agricultural Insurance Pool
56	CBRT	Central Bank of the Republic of Turkey
57	TEFTP	Turkey Electronic Fund Trading Platform
58	TFRS	Turkish Financial Reporting Standards - Interpretations
59	TKBB	Banks Association of Turkey
60	SDIF	Savings Deposit Insurance Fund
61	IAT	Insurance Association of Turkey
62	TCMA	Turkish Capital Markets Association
63	TÜBİTAK	Scientific and Technological Research Council of Turkey
64	CPI	Consumer Price Index
65	TMEX	Turkish Mercantile Exchange
66	TANIC	Turkish Academic Network and Information Center
67	ALC	Asset Lease Company
68	CAGR	Compound Annual Growth Rate
69	NEP	New Economy Program
70	CHE	Council of Higher Education
71	ZISWAF	Program Bantuan Manusia Lanjut Usia

For your any inquires and further information request, you may liase with following contact at TKBB (Participation Banks Association of Turkey)

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