Participation Banks 2016

TKBB
PARTICIPATION BANKS ASSOCIATION OF TURKEY
"Turkey gets strength with participation banking"

ESTABLISHED IN
2002

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Participation banks operating in Turkey

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PBAT in Brief

The Participation Banks Association of Turkey (PBAT), headquartered in Istanbul and established in accordance with the Banking Act, is a professional public institution of legal personality.

The foundations of the PBAT, the umbrella organization of the participation banks operating in Turkey, were laid in 2001 by the Association of Special Finance Institutions.

The title of the Association was amended as Participation Banks Association of Turkey in 2005.

The aim of the PBAT is to defend the rights and interests of participation banks within the framework of a free market economy and the principle of full competition in accordance with banking regulations, principles and rules, to work for the healthy growth of the banking system and development of the banking profession, increase competitiveness, ensure necessary decisions that are taken for the creation of a competitive environment and prevent unfair competition and implement and demand the implementation.

In accordance with the legislation, participation banks have to be members of the Participation Banks Association of Turkey within one month of being granted their permission to operate. Five participation banks operating in Turkey at the end of 2015 were joined by a new one that started operation in February 2016, all of which are members of the PBAT.

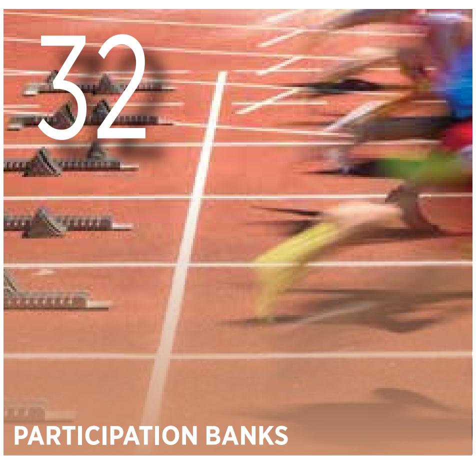
Participation banks of Turkey - Key indicators (2016)*

Funds collected	Funds allocated
TL 81,505 billion	TL 84,880 billion

Total assets	Shareholders' equity
TL 132,776 billion	TL 11,495 billion

Number of personnel	Number of branches
14,465	959

*Key indicators of 5 members of the Participation Banks Association of Turkey (As of 31 December 2016)



“The participation banking ecosystem is developing”

It is inevitable that participation banking will have its own ecosystem which has different characteristics to conventional banking. This is led by the interest free banking standards. These standards are related to the regulation and supervision of banking operations, with its principles deemed compliant with the religion of Islam.

Melikşah UTKU
Chairman
Participation Banks Association of Turkey

Department of Enforcement III within the Banking Regulation and Supervisory Authority (BRSA) responds to a critical need for interest free finance, and participation banking in particular. Recommended action steps are included in the Turkey Participation Banking Strategy Certificate in order to encourage other related public institutions to create similar units.

Participation banking is a banking model that has its own characteristics built on the principles of interest free banking. Starting with the ban on interest, it has basic features such as being based on the real economy and economic activity, it counters uncertainty, excessive risk and speculation, it adopts the principle of sharing the risk, and it refrains from offering banking services to business which would harm the good of the society. All of these things place participation banking in a sound and ethical banking position. Because such features constitute a robust banking model both in terms of assets and liabilities. The 2008 global crisis was a result of banking and financial transactions breaking away from the real economy, creating a huge bubble, bad risk management and default of 70% of variable rate housing loans, which would not be accepted by participation banking as they are also a form of uncertainty. If there had been a financial system with real economic loyalty, where a fixed-income credit system had been adopted which would have prevented the sale of receivables, the crisis would not have reached such a level and may have been overcome with less damage.

It is inevitable that participation banking has its own ecosystem with different characteristics to conventional banking. This is led by the interest free banking standards. These standards are related to the regulation and supervision of banking operations, provided its principles are deemed to be compatible with the religion of Islam. These are a) the Gulf region (Bahrain) based AAOIFI (The Accounting and Auditing Organization for Islamic Financial Institutions) and b) Far East (Malaysia) based IFSB (The Islamic Financial Services Board).

Banks operating in Turkey have their own independent advisory boards which have the freedom to comment and notify their opinions according to the principles of Gulf and Far East standards. They benefit from these standards; however, the consultation committee within our association has also started to form Turkish standards. Meanwhile, the Participation Banks Association of Turkey (PBAT) has also started the translation of AAOIFI’s Interest free Finance Standards into Turkish, which are followed more closely in our country. Moreover, significant progress was also achieved towards the translation of Accounting, Supervision and Corporate Governance Standards.

Participation banking, which needs support from various public institutions due to its stated characteristics, has now found this support, even if it is a little late. For instance, the Department of Enforcement III within the Banking Regulation and Supervisory Authority (BRSA) responds to a critical need for interest free finance, and participation banking in particular. Recommended steps for action are included in the Turkey Participation Banking Strategy to encourage other related public institutions to create similar units. The General Directorate of Public Finance of Undersecretariat of the Treasury has exclusively issued 63% of the total Sukuk issuances, achieving significant success in Sukuk issuances, and also going a long way to bringing a solution to the liquidity problems faced by the sector. Another source of support has come at the level of deputy prime minister and from the ministries. A top level committee entitled "Interest free Finance Coordination Board" was established with the participation of the BRSA, the Treasury, the CMB, the PBAT, the CBRT, the BIST, the Ministry of Finance, the Ministry of Development and Participation Insurance at the level of president, undersecretary and general manager, headed by the deputy prime minister responsible for the Treasury. This committee has been tasked with developing participation banking and interest free financing and accelerating its development. The Board has held three meetings and these meetings have been directed towards taking direct actions as the Top Executive Committee. Undoubtedly, one of the major functions of this ecosystem is the Ministry of Development Priority Transformation Program. With this program, a participation banking and interest free finance development project was added as the 7th component to the Istanbul Finance Center Project, which is included in the Tenth Development Plan.

Apart from this public support, participation banking and the PBAT entered cooperation with important national and international institutions in 2016 and 2017. In March 2017, the "Innovative Products in Islamic Finance" Workshop was held in Istanbul with the cooperation of the BRSA, the PBAT and the Global Islamic Finance Development Center of the World Bank. National and international bankers and specialists offered presentations at the workshop, which proved useful for those attending. Meanwhile, the "Istanbul Talks" Workshop, where Islamic Finance was discussed, was again held at the British Consulate in March 2017. In 2016, PBAT participated in the World Halal Summit as a sponsor. Having participated in the World Gold Council and the Workshop on the Translation of Gold Standards into Turkish, the PBAT undertook an active and decisive task in this regard. In September 2016, the International Islamic Economy and Finance Conference was organized together with Sakarya University and İstanbul Sabahattin Zaim University.

We express our belief that together with our employees, customers and shareholders in the framework of the drawn ecosystem, we will achieve better results with our common beliefs and efforts and that we will be the regional leader of our sector, and I would like to express my sincere thanks to everyone who contributed to participation banking.

Undoubtedly, one of the major pillars of this ecosystem is the Priority Transformation Program held by Ministry of Development. With this program, the participation banking and interest-free finance development project was added as the 7th component to the Istanbul Finance Center Project, which is included in the 10th Development Plan.

In 2016, the global economy moved to a stage of moderate growth

The world economy continued to grow slowly in 2016 due to adverse side effects and the fact that the measures taken to tackle the crisis in 2008 did not produce sufficient results.

General Outlook
The global crisis, which started in 2008 and before being reflected to the real sector remained unresolved despite the significant additional capital flows to the markets, and entered a new phase in 2016. This new global environment affects all countries through a range of different channels and of different doses, depending on the level of strength and openness in the economy. The countries to have borne the brunt of this environment are those that are dependent on external resources whose dependence has become chronic due to the excess global liquidity during the crisis period.

In 2016, global finance markets were mainly focused on the decision of a probable rate hike by the US Federal Reserve (Fed) where real economies struggled due to the slowdown in global demand and where households in many countries, not confident in their economies and the future as a result of increasing unemployment, limited their consumption. Raw material prices, mainly oil, were expected to contribute to the global recovery in economic activity; however, the decline in export revenues that the manufacturers of these products suffered had an adverse effect. On the other hand, the capital outflows from some emerging countries which are dependent on external resources also contributed to the global slowdown.

Donald Trump's surprise election as president in November's presidential election increased the likelihood of a new era in the world economy, where the president elect had said he would apply conservative anti-globalization policies, reduce taxes and increase public spending.

Britain's decision to withdraw from the European Union (Brexit), a similar vote from Italy, deepened doubts about the future of the EU, and brought the reconstruction of positions onto the agenda on a global scale. The possibility that these two developments could trigger similar policy approaches in

Growth in the World Economy (2015-2018)

	Realization (%)		Projection (%)	
	2015	2016	2017	2018
World Economy	3.2	3.1	3.5	3.6
Developed Countries	2.1	1.7	2.0	2.0
Europe (Eurozone)	2.0	1.7	1.7	1.6
Developing Countries	4.1	4.1	4.5	4.8
Developing Europe	3.7	3.0	3.0	3.3
Middle East and North Africa	2.5	3.9	2.6	3.4
Latin America	0.1	-0.1	1.1	2.0
Developing Asia	6.7	6.4	6.4	6.4

Source: IMF World Economic Outlook, April 2017

other countries with a spillover effect will have a decisive impact on the course of global economic policies in the coming period.

Moreover, the chaotic atmosphere of the civil war in Iraq and Syria, disputes between Russia and the US and EU, and Turkey's position, ideologically and in fact, is in the midst of these complex conditions, became a hallmark of the global political conditions of 2016.

Global growth remains weak and vulnerable, with growth in the world economy below its long-term average.
In the Global Economic Outlook report updated by the IMF in April 2017, it was stated that the global rate of economic growth had decreased from 3.4% in 2015 to 3.1% in 2016. Based on the same report, economic growth was realized at 1.7% in developed economies and 4.1% in emerging economies in 2016.

Revising up the 2017 and 2018 forecasts for the growth rates of developed country economies by 0.1 percentage points, the IMF pulled up its forecast for growth in the US economy based on the assumptions that the Trump administration would place emphasis on growth-oriented politics in the country. In particular, the US economy's growth forecast for 2018 was revised up by 0.4 percentage points.

The IMF forecasts that the UK economy would grow faster than had initially been expected in 2017, due to the surprisingly robust performance of the UK economy following the Brexit vote, but decreased its growth forecasts for 2018. Economic activity in Japan surprisingly gained pace thanks to the increase in net exports while there was an economic acceleration in European countries such as Germany and Spain, in line with the strong increase in domestic demand.

The IMF reported varying economic performances in emerging countries from region to region. For instance, China achieved strong growth of 6.7% thanks to the support from incentive policies, whereas India recorded 6.8% growth, following a slowdown compared to the previous year ago as a result of the exchange rate impact. On the other hand, Brazil, which faces a deep economic stagnation, recorded a 3.6% contraction. In general, commodity-exporting countries recorded a slowdown while some parts of Middle East, and Turkey, recorded relatively low growth rates as a result of pressure from geopolitical factors.

Lower than expected global trade volume in 2016, marking a continuation of the slowdown
The growth rate of global trade remained low, in line with the level of global economic, which had demonstrated a limited recovery in the wake of the financial crisis, and the ongoing weakness in investments. In fact, global trade volume increased by 2.2% in 2016, pointing to a slowing of 0.5 percentage points when compared to the growth in 2015.

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Based on country group, developed countries recorded a 2.4% increase in production, while emerging markets posted a 1.5% increase in production in 2016.

The lower than expected economic revival in the Eurozone coupled with ongoing economic and political issues in the Middle East and North Africa regions were among the reasons behind slowdown in global trade volume.

In the Chinese economy, one of the major players in the global trade arena, the process of transition from the investment-oriented growth model, which it had followed since 2011, to a consumption-oriented growth model continues to be a culprit behind the weak course of global trade. In addition, the recent proliferation of protectionist measures in foreign trade, especially in developed countries, is regarded as one of the most important obstacles to the recovery in global trade.

Upward trend in the commodity prices index in the last quarter of 2016

Up by 9.8% and 8.9% respectively, energy and industrial metal indices increased at an average of 5.7% in the final quarter of 2016 compared to the same period of a year ago. Increasing demand in the construction industry in China and the expectation that infrastructure investments will gain pace in the US after the election played a decisive role in the rise in industrial metal prices.

The downward trend in gold prices following the US presidential election in November gained pace from mid-December thanks to the Fed's rate hike decision and a relatively positive performance in commodity prices, particularly oil. Thus, following three consecutive years of contraction since 2013, gold prices closed 2016 with an increase of 9%, to reach USD 1,158/oz. by the end of the year.

Steps taken by OPEC to reduce oil supplies in a bid to stabilize the global oil market

Having fallen to their lowest levels since 2003, oil prices demonstrated some fluctuation in the first three quarters of 2016. In the OPEC meeting held on November 30, 2016, the decision was taken to reduce daily production by 1.2 million bbl. to 32.5 million bbl., and it was announced that the decision would be put into practice with effect from january 2017.

In addition to the approval of 14 OPEC member countries, the support of non-OPEC oil exporters, particularly Russia, drove Brent crude oil prices up to USD 52.60 /bbl., their highest for the year. Having fluctuated in a range of USD 40-50/bbl. in the third quarter of the year, crude oil prices closed 2016 at USD 54.7/bbl., up 45.4% YoY.

The OPEC decision was initially valid for the first half of 2017, and can be extended for a further six months if deemed necessary. Saudi Arabia, the United Arab Emirates and Kuwait were responsible for most of the contraction in production volume was realized. On the other hand, Libya, Nigeria and Iran were exempted from this decision.

In the coming period, OPEC's production cut is expected to have a positive effect on emerging countries, which are net oil exporters, while hurting consumers due to rising prices. Following the decision, OPEC revised its projection for crude oil prices for 2017 from USD 53/bbl. to USD 55/bbl. On the other hand, despite the cut in oil production, the Institute of International Finance (IIF) foresees a limited increase Brent oil prices, expecting a range between USD 49-52/bbl. in 2017 due to US shale gas production and high inventory levels. Looking at demand-side developments in the crude oil market, the International Energy Agency (IEA) has not changed its forecasts for 2017 in terms of demand growth. In particular, the increases in demand in China and India in 2017 were projected to be limited.

A decline in crude oil demand in developed countries is certainly a possibility in 2017 in case of increasing protectionist policies for foreign trade, which would lead to a further slowdown in global trade.

World Trade Volume Growth (2015-2018)

	Realization (%)		Projection (%)	
	2015	2016	2017	2018
World Trade Volume	2.7	2.2	3.8	3.9
Import-Advanced Economies	3.5	2.4	4.0	4.0
Import-Emerging Markets	3.7	1.9	4.5	4.3
Export-Advanced Economies	3.5	3.4	2.5	3.5
Export-Emerging Markets	3.1	2.1	3.6	4.3
Oil Prices	-47.2	-15.7	28.9	-0.3

Source: IMF World Economic Outlook, April 2017

Inflation increased in developed economies, but exhibited a limited decline in emerging economies.
Inflation increased in the US (to 1.3%) and in China (to 2.1%) in 2016, while increasing to just 0.2% in the Eurozone and declining to 0.1% in Japan.

The increase in inflation in developed countries resulted from the relatively bright outlook for economic activity coupled with rising oil prices. The US dollar showed a tendency to appreciate in line with the expansionary economic policies planned after the US elections in November and expectations of the policy steps from the Fed. In the coming period, inflation rates in Eurozone may increase at a limited level, reflecting the modest increase in energy prices; whereas inflation is expected remain below the targeted levels, at least for some time, in the medium term. On the other hand, as a result of fall in the British Pound due to the uncertainties over UK-EU relations after the Brexit referendum, inflation in the UK is projected to stay above the 2% target in 2017 and 2018, before approaching the targeted level thereafter.

Potential increases in commodity prices, particularly oil, the expansionary economic policies to be implemented in the US in the near future, probable weakness in local currencies of emerging countries depending on the expectations of Fed rate hikes and restrictive decisions on foreign trade on a global scale are all factors which could pose an upside risk to the global inflation figures.

Higher returns from stock markets in emerging economies, with more limited pickings in developed markets
According to data released by the World Federation of Exchanges (WFE), the market capitalization of the world stock markets reached USD 65,914 billion at the end of December 2016, a slight decrease of 1.8% from the USD 67,105.6 billion at the end of 2015.

Looking at the market capitalization in terms of regional breakdown, US stock markets showed the best performance. The market capitalization of the US stock markets increased by 10.8% to USD 30,989.9 billion in 2016.

In the same period, the market capitalization of Asia Pacific stock markets declined by 18.5% to USD 18,915.7 billion while the market capitalization of European, African and Middle East stock markets was recorded at USD 16,008.5 billion, implying a limited 0.5% growth compared the previous year.

Among global stock markets, the Belarus Stock Exchange posted the strongest percentage gain in market capitalization, with a 132% increase to USD 1,238.8 million in 2016. This was closely followed by the 122.5% increase in the Trop-X, the 61.71% increase in Moscow Stock Market and the 57.8% gain in BM&F BOVESPA.

In the same period, the Nigerian Stock Exchange suffered the steepest contraction with a 42.2% decline. The market

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capitalization of the Nigerian Stock Exchange decreased from USD 49,973.9 million in 2015 to USD 28,901.4 million at the end of 2016.

In terms of market capitalization loss, the Nigerian Stock Exchange was followed by the 41.5% loss in the Egyptian stock market and the 22.1% loss in the Ukrainian stock market. The market capitalization of the Borsa Istanbul decreased by 16.5% to USD 157,702.2 million in 2016.

The New York Stock Exchange maintained its leading position among global stock markets in terms of market capitalization, with an increase of 10% from USD 17,786.8 billion in 2015 to USD 19,573 billion in 2016.

On the other hand, the market capitalization of the Nasdaq OMX increased to USD 7,779.1 million by the end of 2016, an increase of 6.8% compared to the previous year,

Selected Countries: Development in Economic Growth, Unemployment and Inflation

	Economic Growth			Unemployment			Change in CPI (%)		
	Realization	Projection		Realization	Projection		Realization	Projection	
	2016	2017	2018	2016	2017	2018	2016	2017	2018
USD	1.6	2.3	2.5	4.9	4.7	4.6	1.3	2.7	2.4
Germany	1.8	1.6	1.5	4.2	4.2	4.2	0.4	2.00	1.7
France	1.2	1.4	1.6	10	9.6	9.3	0.3	1.4	1.2
Italy	0.9	0.8	0.8	11.7	11.4	11	-0.1	1.3	1.3
Spain	3.2	2.6	2.1	19.6	17.7	16.6	-0.2	2.4	1.4
UK	1.8	2	1.5	4.9	4.9	5.1	0.6	2.5	2.6
Japan	1	1.2	0.6	3.1	3.1	3.1	-0.1	1	0.6
Canada	1.4	1.9	2	7	6.9	6.8	1.4	2	2.1
China	6.7	6.6	6.2	4	4	4	2	2.4	2.3
India	6.8	7.2	7.7	n/a	n/a	n/a	4.9	4.8	5.1
Russia	-0.2	1.4	1.4	5.5	5.5	5.5	7	4.5	4.2
Brazil	-3.6	0.2	1.7	11.3	12.1	11.6	8.7	4.4	4.3
Mexico	2.3	1.7	2	4.3	4.4	4.4	2.8	4.8	3.2
South Africa	0.3	0.8	1.6	26.7	27.4	27.7	6.3	6.2	5.5

Source: IMF World Economic Outlook, April 2017

whereas the market capitalization of the Japan Exchange Group increased by 3.4% to USD 5,061.5 billion in the same period.

Developed Economies

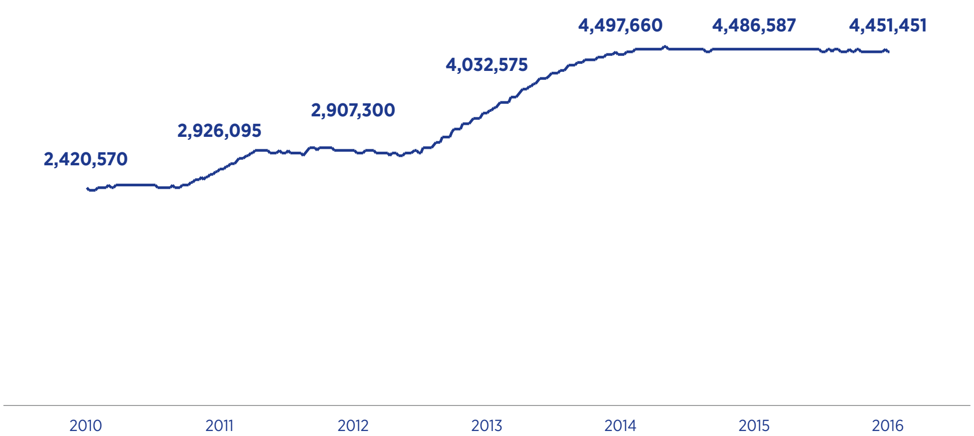
In the third quarter of the year, the US economy displayed the fastest growth performance of the last two years. Having recorded 1.4% growth in the second quarter of the year, growth in the US economy gained pace in the third quarter, with 3.5% growth. The increase in consumption, exports and inventory investments was the major driver of the growth. However, the 1.7% growth attained throughout the year remained short of estimates. While the growth rate was limited due to the impact of net exports, the recovery in consumption spending and increase in private investment expenditures were supportive of the positive outlook for economic growth. The recently announced figures concerning the labor market indicate that the outlook for the economy remains a positive one.

The rate of CPI inflation in the US had peaked at 1.6% in the last six months of the year before closing the year at 1.3%. Meanwhile, the rate of unemployment dipped below 5%, to end the year at 4.9%.

In the Federal Open Market Committee (FOMC) meeting held on December 13-14, the decision was taken for the Federal Reserve (Fed) to raise the policy interest rate by 0.25 percentage points from 0.25% - 0.50% to 0.50% - 0.75%. Fed Chairman Janet Yellen said in her speech after the meeting that the progress made in the economy in the context of full employment and price stability targets played a part in this decision. Referring to the decline in the rate of unemployment in the US and with inflation approaching the Fed's long-term target of 2%, Yellen underlined that economic growth had accelerated since mid-2016.

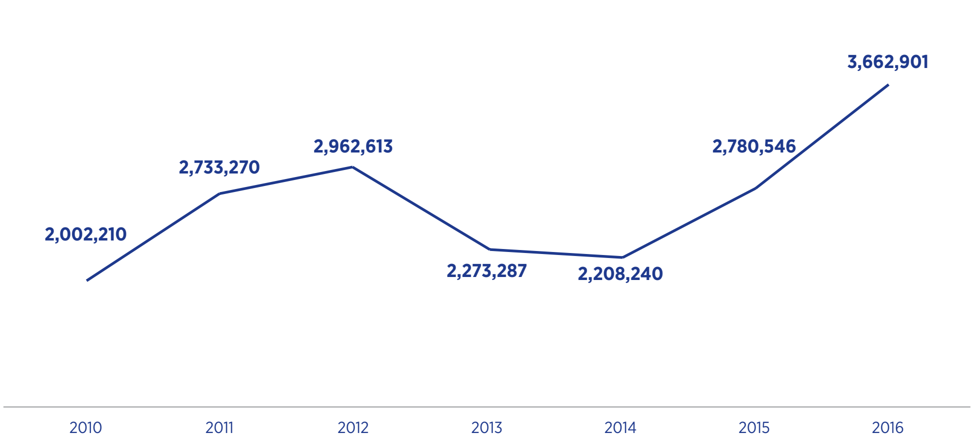
Economic growth in the US gained pace in the third quarter of 2016, reaching 3.5%. The increase in consumption, exports and inventory investments were the major triggers behind the growth.

Federal Reserve Asset Size (USD billion)



Source: Fed (www.federalreserve.gov)

European Central Bank Asset Size (Euro billion)



Source: ECB (www.ecb.europa.eu)

Stating that the gradual hikes in interest rates could continue in the coming period, Yellen stressed that the decisions on interest rates would be shaped by labor market conditions and inflationary expectations as well as developments in the global financial markets. Yellen also said that uncertainty over Trump's fiscal policies cast uncertainty over monetary policy.

Fed members' expectation regarding the policy rate for the end of 2017 was announced at 1,375% while there was an increase in the number of expected rate hikes for 2017 from two (that had been expected in September) to three. This has led to a growing emphasis on current economic conditions allowing the Fed to increase interest rates more rapidly. Following the meeting, the US dollar appreciated against the currencies of both developed and developing countries. Yields on 10-year US Treasury bills tested their two-year highs at 2.64%.

Fed's rate hike decision led to increases in exchange rates, gold prices and 10-year US Treasury yields. The US dollar reached a rate of 1.04 against the Euro, its strongest level against the European currency since January 2003. The US dollar Index, which shows the trade volume based weighted average of the US dollar against major currencies, reached a record level of 102.92 on December 17, 2016, its highest level since 2002.

According to US Treasury Ministry figures, the US national debt exceeded its national income in December 2016. Compared to GDP of USD 18.5 trillion, the US had USD

19.9 trillion of debt (excluding private sector debts). The majority of the debt, approximately USD 14 trillion, was obtained from US citizens, state management, banks, insurance companies, mutual funds, pension funds and Federal Reserves (Fed). The remainder (USD 6 trillion) consists of debt to foreign countries, which hold US T-Bills and bonds.

Following the US elections, the US dollar appreciated rapidly against other currencies, reaching its highest level since mid-2002. In November, the US dollar gained 3% against the Euro and 7% against the Yen. This rise in the US dollar was mainly driven by the expectations that Trump, the newly elected president of the US, would increase fiscal spending, which in turn would lead to faster monetary tightening by the Fed along with higher inflation.

The surprise victory of Donald Trump in the US presidential election will have a significant impact in the medium term, even if it does not have a direct impact on the short term. Financial markets, business sector leaders and policy makers are closely monitoring how Trump will build his cabinet and how it will engage with Congress leaders and the Democrat party.

Rising domestic demand in the Eurozone is expected to remain the driving force of the economy going forward.

The Eurozone economy posted 1.7% growth in 2016. Although the asset purchase program implemented over the past two years and long-lasting expansionary monetary policy have been supportive of the growth, the Eurozone's economic growth still has not reached the expected levels.

Overall unemployment declined to 10% by the end of the year; however, youth unemployment stands at 20% and the long-term unemployment rate is 5.5%, remaining major structural obstacles in preventing growth from entering a sustainable path. Demands to loosen fiscal policy have been resisted by Germany, although the financial area is generally benign.

Annual inflation in the regional countries of the Eurozone remained below the 0.2% target and loan demand and investments also remained low. On the other hand, the Brexit vote, restrictive fiscal policies and the refugee crisis have all increased political tensions within the Union and served to weaken confidence in the European Union project.

Britain decided to leave the European Union in a referendum (Brexit) on whether to continue its EU membership. Increasing inflation in the United Kingdom after the Brexit vote is expected to adversely affect disposable income and reduce total demand. In its meeting on December 8, 2016, the European Central Bank (ECB) announced that it would not change its policy rate, which stands at zero. The ECB also announced it will continue its purchases that through asset purchase program, at a rate of EUR 60 billion per month between March and the end of the year, after having previously extended the rate at the previous meeting to EUR 80 billion per month until March 2017. It is stated the ECB may change the duration and the size of the asset purchase program in case inflation strays

Following the US elections, the US dollar appreciated rapidly against other currencies, reaching its highest levels since mid-2002.

from the targets. The ECB is anticipated to maintain its supportive monetary policy in order to stimulate growth in the coming period.

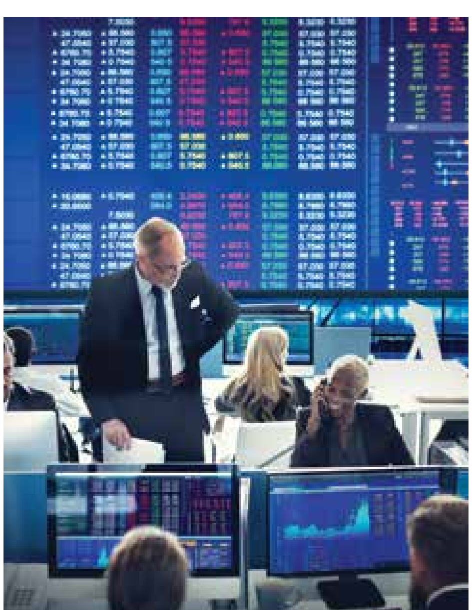
The constitutional referendum held in Italy on December 4, 2016 was rejected. The Italian Prime Minister, Matteo Renzi resigned after the constitutional package proposed by him was rejected in the referendum with 59% of the total vote. This development was considered as a factor increasing uncertainty in Europe.

Economic growth in Eurozone is projected at 1.7% in 2017 and 1.6% in 2018, based on IMF forecasts. Increasing demand in the US is expected to support Eurozone exports over the next two years, while there are concerns that lower demand from the UK and the uncertainty surrounding the future of the EU are expected to take their toll on growth. Proper use of the financial sector is important both for the EU and for the global economy, when it comes to shifting out of the low growth period.

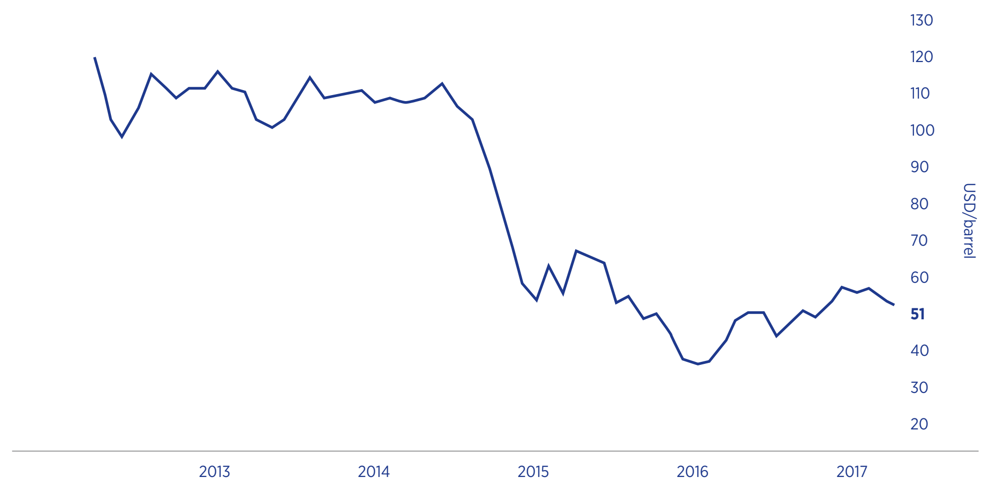
The economic issues in the region on one hand and the adaptation process of the new member states that became members since 2004 on the other have cast a shadow over the future of the EU. Along with the problems in the economy, contesting views about immigrants and rising nationalism in the EU present a challenge to the politics of the bloc, which started life a peace project. In addition to the political uncertainty within the EU, the volatility that may be experienced in financial markets is likely to have a negative impact on the real economy in terms of confidence, credit and investment. On the other hand, any unexpected increase in short-term bond yields could lead to the repetition of the debt crisis in countries with troubled public finances.

Hence, the EU has to deal with a host of economic and internal political issues. This will make it harder for the EU to contribute to solving the problems facing the world economy.

The economic growth in Eurozone is foreseen to be 1.7% and 1.6% in 2017 and 2018 respectively, based on IMF forecasts.



Crude Oil Prices (Brent)

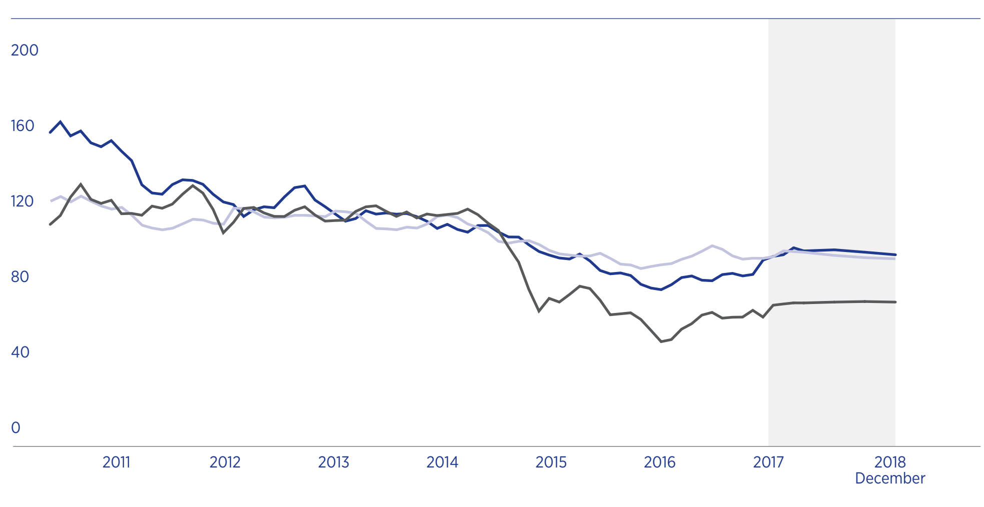


Source: Fed

Japan posts 1% economic growth in 2016. After having previously announced 2.2% growth on an annualized basis, the rate of growth in the Japanese economy was recorded at 1% in 2016. Declining private sector investments and inventories, weaker export activities and a fall in the labor force were among the factors behind the slowdown. Individual consumption spending contributed 0.3 points to the growth with but investments had a negative contribution of 0.4 points due to the uncertainty in the international field.

Based on its decision taken in September 2016 to control the yield curve, the Japanese Central Bank (BoJ) announced unlimited fixed rate bond purchases in November 2016. Earlier on, President Kuroda announced in

Commodities Prices Index



Source: IMF

In accordance with the decision, it took in September 2016 to control the yield curve, the Japanese Central Bank (BoJ) announced unlimited fixed rate bond purchases in November 2016.

September that the government would buy unlimited bonds in a bid to control interest rates when needed, setting fixed interest rates.

The BoJ recorded a financial loss for the first time since 2012, since it records higher provisioning to compensate for the probable losses from T-bills whose weight has been increasing gradually in its balance sheet. Japan's 10-year Treasury yields climbed from negative territory to zero for the first time in nearly two months, affected by the sales in global bond markets following Donald Trump's surprise victory in the US presidential race.

Consumer prices in Japan, where deflationary pressures continue, fell for six consecutive months, closing the year with a 0.1% fall. Household spending also continued to decline, saddling companies with difficulties amid rising prices against weak consumption demand. In fact, some retail companies cut their final prices in an effort to stimulate demand, lending credence to the view that the BoJ has to take new steps. The BoJ did not make any changes to the monetary policy in its meeting held on November 1, and it delayed the anticipated deadline to reach the 2% inflation target.

The growth projections for the Japanese economy were revised to 1.2% for 2017 and 0.6% for 2018. The contraction of the workforce and political uncertainty among major trading partners had a certain degree of influence on these revisions.

Emerging Markets and Economies

A sound performance from the Chinese economy in 2016, in line with its growth target

Following the global crisis, the Chinese economy is still growing rapidly albeit with a lower and more sustainable growth pattern,

Selected Countries: Current Deficit (% of GDP)

	Realization	Projection	
	2016	**2017**	**2018**
USA	-2.6	-2.7	-3.3
Germany	8.5	8.2	8
France	-1.1	-0.9	-0.5
Italy	2.7	2	1.8
Spain	2	1.5	1.6
UK	-4.4	-3.3	-2.9
Japan	3.9	4.2	4.2
Canada	-3.3	-2.9	-2.7
China	1.8	1.3	1.2
India	-0.9	-1.5	-1.5
Russia	1.7	3.3	3.5
Brazil	-1.3	-1.3	-1.7
Mexico	-2.7	-2.5	-2.7
South Africa	-3.3	-3.4	-3.6

Source: IMF World Economic Outlook, April 2017

referred to as the "new normal". Despite the lower pace of growth in the industrial sector, the services sector was in the driving seat in the second half of 2016. The Chinese economy recorded 6.7% growth in 2016, in line with its growth target of 6.5-7% growth.

The government's support of economic activity through public spending and the Bank of China's efforts to boost liquidity and facilitating housing purchases played key roles in this growth. The Chinese government expects 6.5% growth for 2017.

The structural transformation in the Chinese economy can be followed from an increase in consumption expenditure, which has emerged as a key factor driving growth.

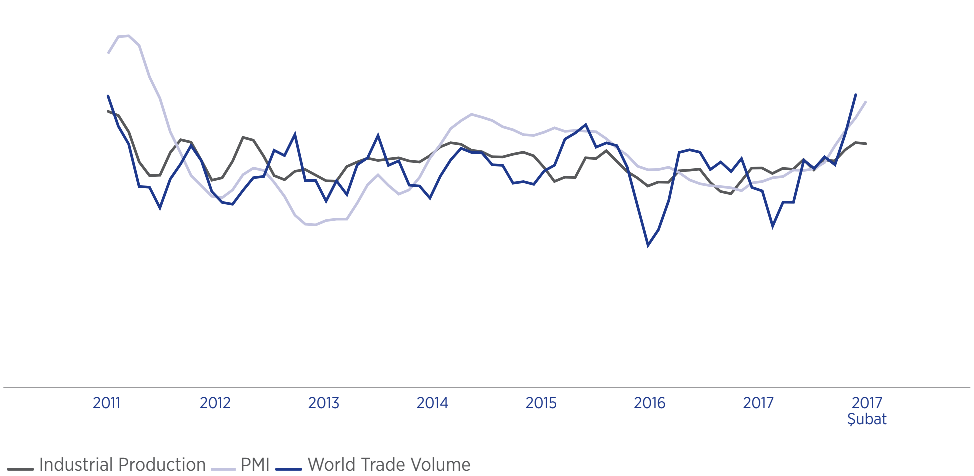
However, there is concern than private consumption may not increase at such a pace in the coming period, posing a threat in terms of growth sustainability. Measures to reduce the capacity surplus in some sectors are likely to negatively affect pay rises and, subsequently, aggregate consumption.

Since the beginning of 2016, China's efforts to reduce corporate borrowing, housing stock and idle capacity have all attracted attention.

While the ratio of corporate sector debt stock to national income is fixed at 160%, the debt of households and the public sector has increased.

Producer prices in China increased by 6.9% in YoY terms. Thus, producer price inflation has increased for five consecutive months, reaching its highest level since August 2011. It is noteworthy that the drivers of inflation are broad throughout the economy while price increases have become more evident in the oil, coal and iron and steel sectors.

World Trade, Industrial Production and PMI



Source: IMF World Economic Outlook, April 2017

Following the global crisis, the Chinese economy is still posting strong growth but with a lower and sustainable growth pattern, deemed the "new normal". While there was a slower pace of growth in the industrial sector, it was the services sector that was in the driving seat in the second half of 2016.

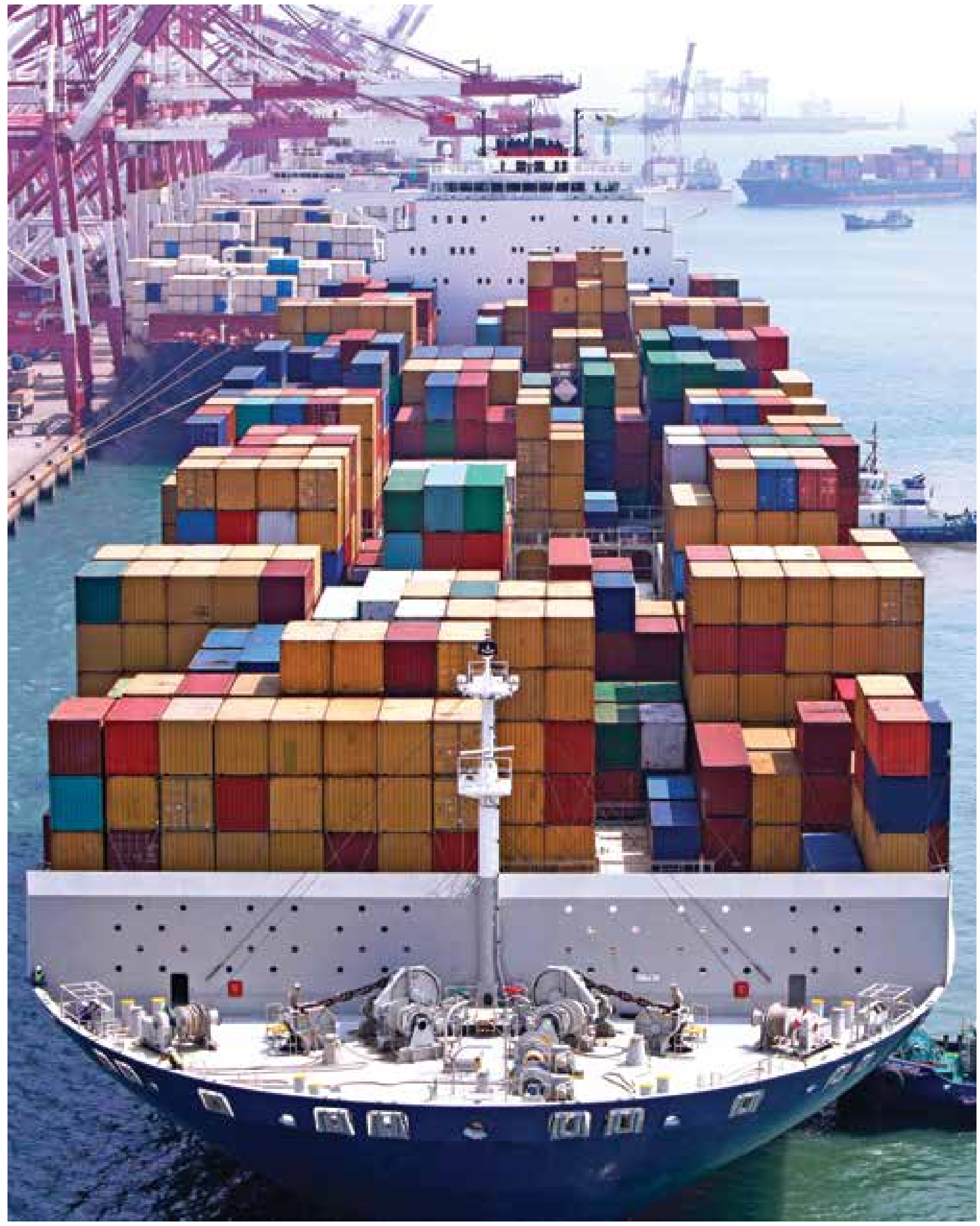
In China, rapid increases in housing prices and loan volume have also increased vulnerability in the financial markets. In light of the depreciation of the Yuan and the rising trend in inflation, voices stating that 'the appropriate floor for the loose monetary policy might not be available' have recently become louder. On the other hand, China's Finance Minister, Xiao Jie, stated that fiscal policy would be shaped to support economic activity. The Finance Minister also added that public spending would be increased and tax rates cut in this framework.

Brazilian economy remained in recession in 2016.
In the third quarter of 2016, the Brazilian economy recorded its seventh contraction in a row on a quarterly basis, continuing its recession. Having contracted by 0.4% in the second and 0.9% in the third quarter, the Brazilian economy completed the year with a 3.6% contraction.

The Brazilian Central Bank reduced benchmark rates by 25 base points to 13.75% after back-to-back meetings. While the recession in the Brazilian economy continues, the Central Bank has stepped up its expansionary policy process, announcing its forecast of reaching the 4.5% official inflation target for 2017.

Stagnation continues in Russian economy.
Having contracted for eight consecutive quarters on an annual basis, the Russian economy closed 2016 with a 0.2% contraction.

In its meeting on December 12, 2016, the Central Bank of Russia, which kept the benchmark interest rate unchanged at 10%, stated interest rate cuts would be assessed in the first half of 2017 if the inflation risk was deemed to have reduced.

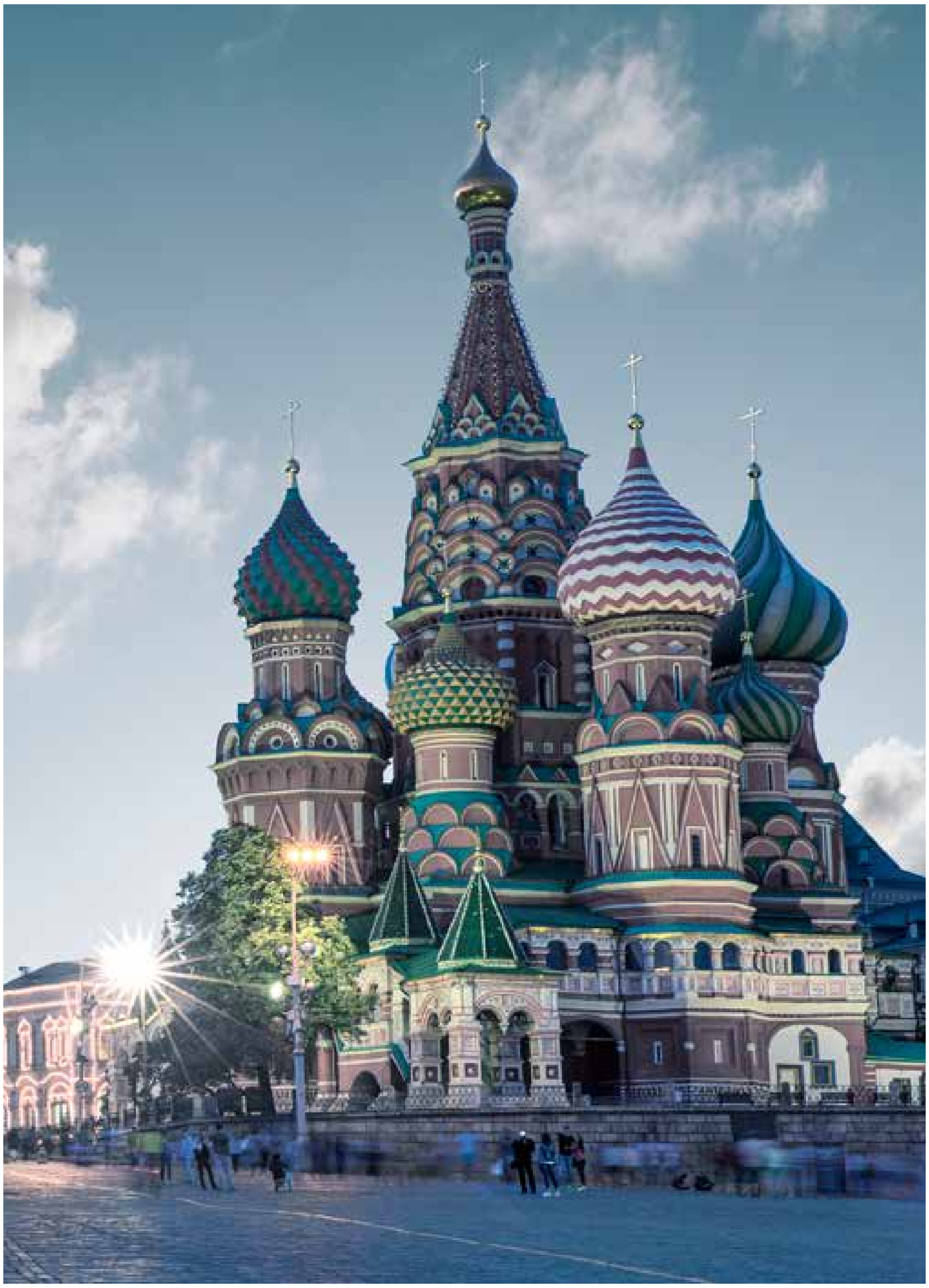


Middle East and North Africa - Selected Economic Indicators

	GDP Growth (%)			Change in CPI (%)		
	Realization	Projection		Realization	Projection	
	2016	2017	2018	2016	2017	2018
Iran	6.5	3.3	4.3	8.9	11.2	11.0
Iraq	10.1	(3.1)	2.6	0.4	2.0	2.0
Kuwait	2.5	(0.2)	3.5	3.2	4.2	3.6
S. Arabia	1.4	0.4	1.3	3.5	3.8	5.1
UAE	2.7	1.5	4.4	1.8	2.8	3.7
Qatar	2.7	3.4	2.8	2.7	2.6	5.7
Egypt	4.3	3.5	4.5	10.2	22.0	16.9
Sudan	3.0	3.7	3.6	17.8	23.2	16.0
Tunisia	1.0	2.0	3.1	3.7	3.9	3.8
Algeria	4.2	1.4	0.6	6.4	4.8	4.3
Morocco	1.5	4.4	3.9	1.6	1.2	1.5

Source: IMF World Economic Outlook, April 2017

Buffeted by the fall in oil prices and sanctions, Russia continued to record a decline in inflation from the 12.9% rate recorded in the previous year in line with the government's expectations. The annual rate of inflation which stood at 6.1% in October, decreased to 5.8% in November before closing the year at 7.0% in December.



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Russia announced its readiness to help stabilize the oil market after OPEC's decision to reduce oil supplies. The Russian government stated that the current record high production of 11 million barrels of oil per day would gradually decline in the first half of 2017. However, in Russia, where the private sector has partial control of oil production, it is thought that this practice may bring some problems.

The Indian economy outperforms the rest of the world in terms of economic growth in 2016.
GDP in India increased by 7.3% in the third quarter of the year, driven by accelerating total demand on the back of the rising wages of public employees and investments triggered by structural reform of the tax system. In terms of the contribution to economic growth, 4.81 points came from consumption spending, 1.8 points from public expenditures, 2.3 points from net exports and 1.6 points from inventory changes; while investments had a negative impact of 2.6 points. The 6.8% growth reached by the end of the year placed India among fastest growing economies.

Prime Minister Modi announced on November 8, 2016 that the government was to remove 500 and 1,000 Rupee banknotes from circulation, and replace them with new 500 and 2,000 Rupee banknotes. With this decision, the government aims to tackle illicit money and money earned illegally. Cash is intensively used in the Indian economy, with the ratio of cash to national income being 12%, well above 5% OECD average. The government's decision is expected to negatively affect growth in the short term, although the economy will benefit from the move in the long run.

Consumer price inflation continued to decline in India, falling to 4.9% due to the slowdown in food prices. Following the decline in inflationary pressure, the Central Bank of India cut repo rates by 175 basis points in order to support growth and in its December meeting, where it decided to keep the policy rate on hold at 6.25%, which is the lowest level in the post 2011 era.

Global Outlook, Expectations and Risks for 2017

Uncertainty in global economic policies reaches its highest level since 2011.
With global economic activity still being weak since the last financial crisis, the political landscape seems to have changed in many countries.

In line with the changing political climate, uncertainties regarding economic policies have also increased. Within this context, uncertainty in global economic policies reached its highest level since 2011.

One of the first factors behind the change in the global political climate was Britain's decision to leave the EU. In the referendum held on June 23, 2016, the surprise outcome of the UK to leave the EU was the main source of uncertainty in economic policies in Europe. Thereafter, Donald Trump's election on November 8, 2016, signaling a more introverted policy in the United States also raised uncertainties over the elections in European countries.

Due to the uncertainty and volatility it creates, the ongoing global political agenda poses various difficulties in terms of policy implementations, both in the economies of developed and developing countries. These developments will steer the world economy through the commerce, finance, monetary policy channels and affect capital flows. At this stage, it would be difficult to forecast how these channels will develop and what their final impact will be; however, the first reflections of the recent developments would appear to be increasing interest rates and a re-pricing of assets.

For instance, the strong expansionary fiscal policy to be implemented in the US may enhance global demand and therefore growth of emerging economies through capital flows to emerging markets. Similarly, the implementation of expansionary fiscal policies in other developed countries coupled with fiscal incentive packages implemented in China will also have a positive impact on the global economy. However, capital flows to emerging economies could be negatively affected if developed countries also increase their interest rates. In such environment, we would expect emerging economies to be influenced through monetary policy, in order to eliminate the adverse effects of exchange rates on their economies. Fiscal policies and macroeconomic measures may be necessary to stimulate their economies in order to compensate for the downside effects of tightening monetary policy on economic activity. The decision on how and which policies will be implemented and restrictions that may arise will differ depending on the conditions of each country and country's specific factors.

For instance, countries with a fiscally sound structure may place emphasis on financial incentives while countries where the budget burden is already high may opt for macro-prudential measures. Such macroeconomic policies and precautionary measures are helpful in buying time for policy makers; however, structural policies are known to be the main policies that increase the resilience of the economy against economic shocks. Hence, for both developed and emerging countries, it is necessary to view such challenging periods as an opportunity to put structural reforms into effect and ensure coordination of the relevant institutions and authorities in developing monetary, fiscal, macroeconomic precautions and structural policies.

As a result, it is important to utilize macroeconomic policies together and effectively in order to stimulate total demand in the short term, in order to haul the economy out of its low growth trap and increase its potential growth in the long-term.

The improvement continues despite the negative global cycle

Turkey's rate of growth, the most concrete indicator of the development in economic activity, continued to progress despite such a negative cycle.

Turkey faced stiff challenges in both the political and economic arena in 2016.
Turkish economy rounded off 2016 under the shadow of negative global developments, affected by the turmoil in the Middle East and the crisis with Russia. In addition, the country faced the July 15 coup attempt by the Feto terrorist organization, which was followed by the state of emergency which was necessary to maintain the existence of the state and the country. These negative incidents inevitably disrupted the ordinary flow of economic activities.

A 2.9% increase in Gross Domestic Product (GDP) in 2016
Turkey was affected by global drivers as well as domestic-national dynamics during the year. The rate of economic growth, the most concrete indicator of developments in economic activity, continued to progress despite such a negative cycle.

In parallel with Turkstat's revision in the national accounts in the third quarter of 2016, the gross domestic product estimate, based on the volume index (2009=100), increased by 3.5% YoY in the fourth quarter of 2016 to reach TL 734.393 billion at current prices.

GDP is calculated by summing the four periods according to the production method. GDP increased by 2.9% YoY in 2016 on the basis of the chained volume index. GDP grew by 10.8% YoY in 2016 based on current prices and reached TL 2,590.517 billion. Looking at the activities that comprise GDP, it could be seen that the total value added of the agricultural sector decreased by 4.1% as the chained volume index, while the total value added of the industrial and construction sectors increased by 4.5% and 7.2% respectively, and the total value added of the services sector decreased by 0.8%

Per capita GDP based on current prices was calculated as TL 32,676 (USD 10,8807) in 2016.

A slowdown in growth in annual and quarterly terms across the board
Economic activity was weak in the third quarter of the year. In this period, the negative impacts of the decrease in tourism receipts became clearer. The direct and indirect effects of this deceleration was seen in activity in the services and industrial sectors. In addition, the loss of business days due to the incidents in mid-July and extended religious holidays are also thought to have negatively affected sectors in general. In addition to the normal calendar effects, when the impact of these business day losses is excluded, it is expected that rather than contract, economic activity actually grew slightly in the third quarter and that the periodic contraction was more limited.

The industrial production figures for October and November indicate that the sharp contraction in the third quarter was temporary, and was offset in the last quarter. The main trend in industrial production in the last quarter was one of moderate growth over and above the technical recovery driven by the offsetting of business day losses in the third quarter. However, the growth in this quarter was not seen in all sectors. Export-driven sectors, especially the motor vehicle sector, drove the growth while other sectors limited the growth.

Real GDP Growth Rate

Year	GDP (current prices TL million)	Change (%)	Growth Rate (%)	Per Capita GDP (USD)
2010	1,160,014	16.1	8.5	10,560
2011	1,394,477	20.2	11.1	11,205
2012	1,569,672	12.6	4.8	11,588
2013	1,809,713	15.3	8.5	12,480
2014	2,044,466	13.0	5.2	12,112
2015	2,337,530	14.3	6.1	11,014
2016	2,590,517	10.8	2.9	10,807

Source: TURKSTAT

GDP by Production (%) (Chained volume index, 2009=100)

	2015				2016			
Sectors	**I**	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**
Agriculture, Forestry and Fishing	6.5	8.8	16.3	-3.6	-4.3	-4.0	-6.5	1.3
Industry	0.8	5.4	3.8	9.6	8.1	6.0	-0.8	5.0
Manufacturing	2.6	5.7	4.0	10.7	7.7	6.3	-2.6	4.4
Services								
Construction	-2.1	9.4	3.7	7.9	5.4	16.0	4.0	3.7
Trade, transport, accommodation	7.1	8.2	4.8	6.6	2.0	0.5	-7.4	1.8
Information and communication	0.7	2.1	0.1	10.9	4.8	7.5	2.7	9.1
Financial and insurance activities	9.0	12.5	7.3	2.4	8.9	13.5	-1.3	8.4
Real estate activities	3.5	2.1	2.1	1.8	4.1	4.6	3.0	2.7
Taxes-Subsidies	6.3	14.0	7.4	10.3	2.8	4.8	1.0	4.9
Gross Domestic Product	3.5	7.2	5.9	7.4	4.5	5.3	-1.3	3.5

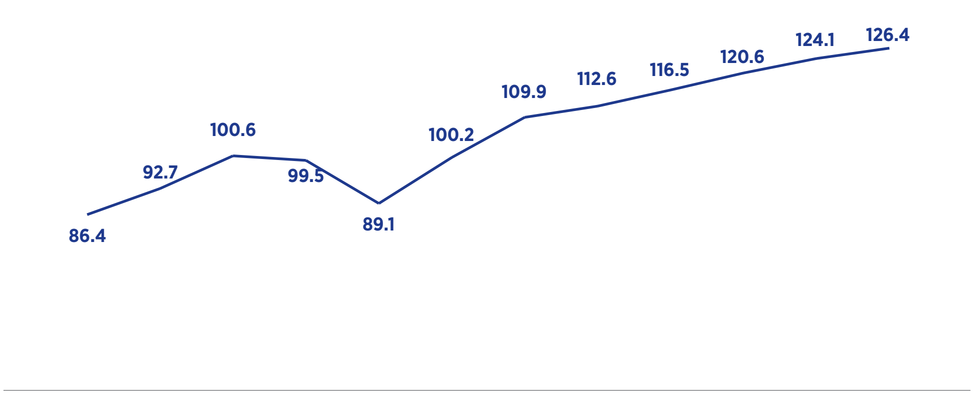
Source: T.R. Ministry of Development

Production Indicators (% change over the same month of the previous year)

	2016											
	Jan.	**Feb.**	**March**	**April**	**May**	**June**	**July**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**
Total Industry	3.6	8.7	4.7	0.7	7.2	1.2	-8.4	2.8	-4.1	0.3	4.7	1.3
Intermediate Goods	2.1	9.7	4.3	1.3	1.9	-0.4	-10.5	1.4	-3.0	-1.7	1.7	-4.0
Durable Consumer Goods	7.0	5.1	1.5	-3.3	2.5	-5.5	-15.7	1.6	-9.3	-9.0	-0.5	-5.8
Non-Durable Consumer Goods	6.1	12.3	5.8	4.3	10.1	-0.2	-9.6	6.5	-7.8	1.4	3.5	6.3
Investment Goods	-1.4	4.6	6.7	-5.8	19.8	1.2	-11.9	-0.7	-3.8	0.6	10.7	4.7
Manufacturing Industry	3.1	9.2	5.4	0.5	8.0	-0.5	-11.0	2.2	-5.0	-0.5	4.3	1.2
Mining	4.5	9.7	-3.2	-4.5	-0.7	7.8	-0.6	4.3	2.5	-0.3	1.8	-7.4
Energy	6.1	4.9	3.8	4.9	4.7	11.1	3.7	6.1	-0.9	6.0	8.3	4.8
Electricity	4.4	3.4	2.6	3.2	2.6	8.7	2.1	3.7	-3.2	2.6	5.4	3.9
Automotive	-4.3	10.6	4.2	3.1	43.0	6.0	-2.6	-2.5	0.6	8.7	18.8	23.6
White Goods	8.1	6.8	8.9	5.9	13.6	6.2	-3.2	13.2	-0.5	3.7	13.6	3.9
Total Industrial Turnover Index	10.1	17.2	10.7	4.4	9.7	5.7	-7.8	4.5	-2.7	4.1	14.9	14.7
Manufacturing Industry Turnover Index	10.0	17.4	10.8	4.8	9.9	5.6	-7.6	4.3	-3.1	4.0	14.9	14.8
Real Sector Confidence Index	0.1	1.1	2.4	2.0	0.8	1.8	2.5	-0.1	7.3	1.2	-1.4	-3.7
Index Values												
Capacity Utilization in Manufacturing Industry	74.9	73.5	74.3	75.3	75.7	76.1	75.7	75.2	76.6	76.4	76.4	76.5
PMI (Production, SA)	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7

Source: T.R. Ministry of Development

Industrial Production Index (Seasonally and calendar adjusted indices, 2010=100)



Source: BRSA

Survey indicators confirm that the recovery in the fourth quarter was moderate. Exporting sectors enjoyed relatively stronger positions. The devaluation of the Turkish Lira is thought to have supported this change in the demand composition. The decrease in domestic demand in January for sectors carrying out production for the domestic market indicate the presence of downward risks regarding domestic demand.

Domestic demand mainly driven by strong increase in public spending

According to GDP data based on the expenditures method, the negative impact of net exports increased in 2016 as losses in tourism receipts became more apparent in the third quarter. Moreover, the atmosphere of uncertainty created by negativities in July resulted in a deceleration of domestic demand. The strong increase in public spending was the main driver of domestic demand, while the increase in construction investments limited the decline in total investment.

Current indicators suggest that economic activity recovered in the fourth quarter on a quarterly basis. A raft of measures and incentives increased the volume of loans being extended and revived demand for housing and consumer goods. Final household consumption expenditures increased by 2.3% YoY in 2016 according to the chained volume index while their share in GDP reached 59.5%.

The share of public final consumption expenditures in GDP stood at 14.7% while the share of fixed capital formation was

GDP by Expenditure (%) (Chained volume index, 2009=100)

	2015				2016			
	I	II	III	IV	I	II	III	IV
Public Expenditures	-5.2	7.4	0.9	11.6	10.5	14.4	5.6	0.8
Private Expenditures	6.2	6.9	3.7	5.4	0.9	4.1	-1.7	5.7
Fixed Capital Investments	**3.3**	**13.4**	**9.1**	**10.4**	**6.6**	**3.8**	**0.5**	**2.0**
Export of Goods and Services	2.5	4.2	4.7	5.2	1.4	-1.9	-9.3	2.3
Import of Goods and Services	3.8	2.4	0.5	0.4	2.7	7.2	2.1	3.3
GDP (expenditure)	**3.5**	**7.2**	**5.9**	**7.4**	**4.5**	**5.3**	**-1.3**	**3.5**

Source: T.R. Ministry of Development

Labor Market Developments

	Annual						
	2010	2011	2012	2013	2014	2015	2016
Labor Force Participation Rate (%)	46.5	47.4	47.6	48.3	50.5	51.3	52.0
Civil Labor Force (thousand)	24,594	25,594	26,141	27,047	28,786	29,678	30,535
Civil Employment (thousand)	21,858	23,266	23,937	24,601	25,933	26,621	27,205
Agriculture	5,084	5,412	5,301	5,204	5,470	5,483	5,305
Non-Agriculture	16,774	17,854	18,636	19,397	20,463	21,138	21,900
Industry	4,615	4,842	4,903	5,101	5,315	5,332	5,296
Services (including construction)	12,159	13,012	13,733	14,296	15,148	15,806	16,604
Unemployed (thousand)	2,737	2,328	2,204	2,445	2,853	3,057	3,330
Unemployment Rate (%)	11.1	9.1	8.4	9.0	9.9	10.3	10.9
Non-Agriculture Unemployment Rate (%)	13.7	11.3	10.3	10.9	12.0	12.4	13.0
Youth Unemployment Rate (%)	19.9	16.8	15.8	17.1	17.9	18.5	19.6
Employment Rate by Sector (% Share)							
Agriculture	23.3	23.3	22.1	21.2	21.1	20.6	19.5
Non-Agriculture	76.7	76.7	77.9	78.8	78.9	79.4	80.5
Industry	21.1	20.8	20.5	20.7	20.5	20.0	19.5
Services	49.1	48.7	50.2	50.9	51.0	52.2	53.7
Construction	6.6	7.2	7.2	7.2	7.4	7.2	7.3

Source: T.R. Ministry of Development

Demand Indicators (% change over the same month of the previous year)

	2016											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Electricity Demand	4.6	3.7	2.6	4.0	3.0	9.1	2.6	4.5	-2.6	2.8	5.2	4.0
Automobile Sales	-4.7	-0.6	3.7	-6.5	17.4	4.9	-29.0	-12.6	9.1	32.9	53.5	-5.5
Automobile Exports	-20.4	17.4	3.0	6.7	66.0	11.6	33.2	44.5	17.1	26.5	46.3	44.9
White Goods Sales	11.4	11.6	9.1	-2.0	3.0	5.4	-6.7	6.6	0.1	-0.2	20.5	15.2
White Goods Exports	5.2	9.7	10.2	9.3	15.3	8.6	-1.1	16.1	-0.7	9.1	12.1	5.9
Retail Sales Volume Index (Calendar adjusted fixed price, including VAT)	0.0	7.9	4.1	3.3	1.4	1.7	-3.1	0.2	0.9	-0.3	-2.0	-2.8
Food, Beverages, Tobacco Sales	3.3	6.5	5.7	3.3	2.8	0.8	-1.0	0.9	-3.6	1.4	-1.3	1.1
Non-Food (Excluding automotive fuel)	-0.7	7.9	4.4	5.1	1.4	2.2	-8.8	0.3	1.1	-1.0	-1.7	-0.4
Number of Established Companies	6.9	16.5	17.4	-2.4	-3.8	-5.7	-34.3	-10.2	-29.1	3.5	1.3	-21.2
Number of Liquidated Companies	-21.6	-21.6	-22.0	-32.0	-19.6	85.7	-41.2	-8.9	22.5	52.7	47.9	-5.5

Source: T.R. Ministry of Development

29.8% in 2016. According to the chained volume index for the previous year, public final consumption expenditures rose by 7.3% while gross fixed capital formation increased by 3%.

Increases in total and non-agricultural unemployment in line with the economic slowdown

The increase in the rate of unemployment was driven by the weakening employment trend as well as the increase in the labor force participation rate. The weak trend in non-agricultural employment in the first ten months of 2016 was driven by a contraction in employment in the industrial sector. The construction sector did not contribute to the increase in non-agricultural employment in this period, while the services sector continued to support the increase.

The number of people unemployed aged 15 or above increased by 272,000 in 2016 when compared to the previous year to reach 3.33 million throughout Turkey. The rate of unemployment in the same period increased by 0.6 percentage points to 10.9%. Unemployment among men increased by 0.4 points to 9.6% while that of women increased by 1.1 points to 13.7%. The increase in youth unemployment (in the 15-24 age group) was 19.6% and in the 15-64 age group it was 11.1%.

The number of workers in the agricultural sector decreased by 178,000 in 2016 while the number of workers in the non-agriculture sectors increased by 763,000 during the year. In terms of employment by sector, 19.5% of those in employment were working in the agricultural sector, 19.5% in the industrial sector, 7.3% in construction and 53.7% services. When this composition is compared with that of the previous year, the share of people employed in the services sector increased by 1.5 percentage points while there was an increase of 0.1 percentage points in the share of people working in the construction sector, while the share of people working in the agricultural sector and the industrial sector decreased by 1.1 and 0.5 points.

The exports to imports coverage ratio increased from 69.4% in 2015 to 71.8% by December 2016.

The workforce expanded by 857,000 in 2016 when compared to the previous year, to reach 30,535,000. The workforce participation rate increased by 0.7 percentage points to 52%. The workforce participation rate among men increased by 0.4 percentage points to 72% while among women it increased by 1 percentage point to 32.5%.

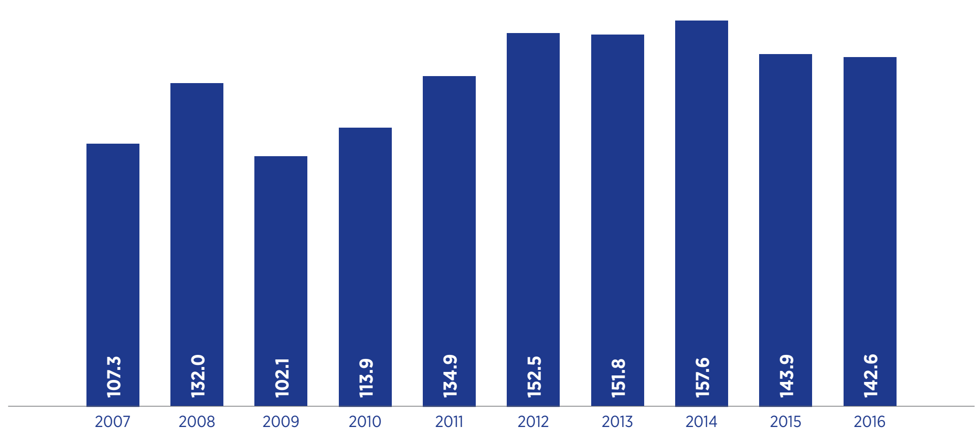
Continued contraction of export and import volumes in 2016

Regional tensions negatively affected Turkey's export performance in 2016 despite the gradual recovery in European economies. In addition to geopolitical challenges, the decrease in oil exporter countries' revenues due to decrease in oil prices resulted in a contraction in Turkey's exports to Middle East and North Africa (MENA) countries, Russia and Iraq. Exports decreased by 0.9% YoY to USD 143 billion.

Imports declined thanks to the continuation of low energy prices. Total imports decreased by 4.2% YoY in 2016 to USD 199 billion. The foreign trade deficit therefore decreased by 11.7% YoY to USD 56 billion. The exports to imports coverage ratio increased from 69.5% in 2015 to 71.8% by December 2016.

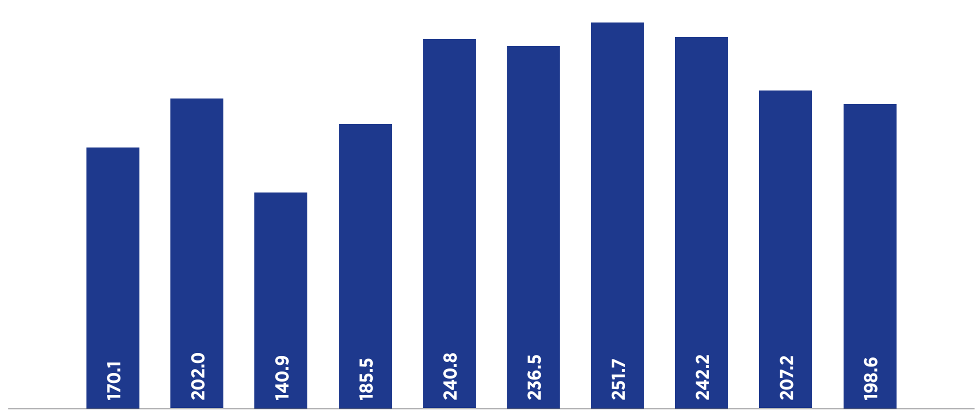
The improvement in the current account balance continued for the first eight months of the year thanks to positive developments in trade, and with the effect of macro-prudential measures. Subsequently, though, the current account deficit increased due to the decreased effect of energy prices

Export (USD billion)



Source: TURKSTAT

Import (USD billion)



Source: TURKSTAT

Foreign Trade and Balance of Payments

USD million	2010	2011	2012	2013	2014	2015	2016
Exports (FOB)	113,883	134,907	152,462	151,803	157,610	143,839	142,606
Imports (CIF)	185,544	240,842	236,545	251,661	242,177	207,234	198,602
Balance of Foreign Trade	-71,661	-105,935	-84,083	-99,859	-84,567	-63,395	-55,996
Volume of Foreign Trade	299,428	375,749	389,007	403,464	399,787	351,073	341,208
Foreign Trade Volume/GDP (%)	38.8	45.2	44.7	42.5	42.9	40.8	39.8
Exports/Imports (%)	61.4	56.0	64.5	60.3	65.1	69.4	71.8
Energy Imports	38,497	54,117	60,116	55,916	54,889	37,842	27,154
Brent Crude Oil Prices per Barrel (USD)	80,2	113,4	112,0	109,4	97,5	52,5	44,0
Balance of Current Account	-44,616	-74,402	-47,962	-63,621	-43,597	-32,118	-32,605
Balance of Current Account/GDP (%)	-5.8	-8.9	-5.5	-6.7	-4.7	-3.7	-3.8
Balance of Current Account Excluding Gold	-44,163	-69,624	-53,671	-51,842	-39,701	-36,073	-34,395
Balance of Current Account Excluding Gold/GDP (%)	-5.7	-8.4	-6.2	-5.5	-4.2	-4.2	-4.0
Travel Revenues	22,585	25,054	25,345	27,997	29,552	26,616	18,743
Net Direct Investments	-7,617	-13,812	-9,522	-9,269	-5,781	-12,455	-8,998
Direct Investments Input	9,099	16,182	13,628	12,896	12,828	17,550	12,116
CBRT Gross FX Reserves	80,721	78,458	99,923	110,928	106,902	92,922	92,051
CBRT Total Reserves	110,027	110,510	137,518	147,880	141,854	128,077	129,555

Source: TURKSTAT, CBRT

Top 10 Countries in Exports

USD thousand	2016	Share %	2015	Share %	Change %
Total	142,544,457		143,838,871		
Germany	14,000,020	9.8	13,417,033	9.3	4.3
UK	11,686,650	8.2	10,556,393	7.3	10.7
Iraq	7,637,880	5.4	8,549,967	5.9	-10.7
Italy	7,581,176	5.3	6,887,399	4.8	10.1
USA	6,623,447	4.6	6,395,842	4.4	3.6
France	6,022,938	4.2	5,845,032	4.1	3.0
UAE	5,407,149	3.8	4,681,255	3.3	15.5
Spain	4,989,045	3.5	4,742,270	3.3	5.2
Iran	4,966,510	3.5	3,663,760	2.5	35.6
Holland	3,589,630	2.5	3,154,867	2.2	13.8

Source: TURKSTAT

Top 10 Countries in Imports

USD thousand	2016	Share %	2015	Share %	Change %
Total	198,617,392		207,234,359		
China	25,440,726	12.8	24,873,457	12.0	2.3
Germany	21,474,093	10.8	21,351,884	10.3	0.6
Russian Federation	15,162,363	7.6	20,401,757	9.8	-25.7
USA	10,867,787	5.5	11,141,462	5.4	-2.5
Italy	10,219,003	5.1	10,639,042	5.1	-3.9
France	7,364,722	3.7	7,597,687	3.7	-3.1
South Korea	6,384,163	3.2	7,057,439	3.4	-9.5
Indian	5,757,172	2.9	5,613,515	2.7	2.6
Spain	5,679,305	2.9	5,588,524	2.7	1.6
UK	5,320,631	2.7	5,541,277	2.7	-4.0

Source: TURKSTAT

With the rise in crude oil prices, energy inflation jumped sharply.

and the decrease in tourism receipts. The 12-month rolling current account deficit stood at USD 33.7 billion as of November 2016. The current account deficit was financed through direct capital investments and long-term resources.

Improvement in core inflation indicators grinds to a halt.

Consumer price index (CPI) inflation ended 2016 at 8.53%. Consumer inflation had been falling after July, but then demonstrated a significant rise in December and came in at a level which exceeded the uncertainty interval of the inflation target. This development was caused by the devaluation of the Turkish lira, tax adjustments and some increase in food prices. In terms of the sub groups, the shifts in energy prices throughout the quarter, in alcoholic beverages and tobacco in December and the prices of food and basic goods stand out. Energy prices were the first to reflect the weakening in the Turkish Lira since September, given the relatively high exchange rate pass-through for energy. With the additional impact of rising crude oil prices, energy inflation jumped significantly. Domestic producer prices (D-PPI), on the other hand, increased to 9.94% due to changes in manufacturing industry prices. Prices of international commodities,

The CBRT maintained its stance of a tight approach to inflation, balancing foreign exchange liquidity and upholding financial stability in 2016.

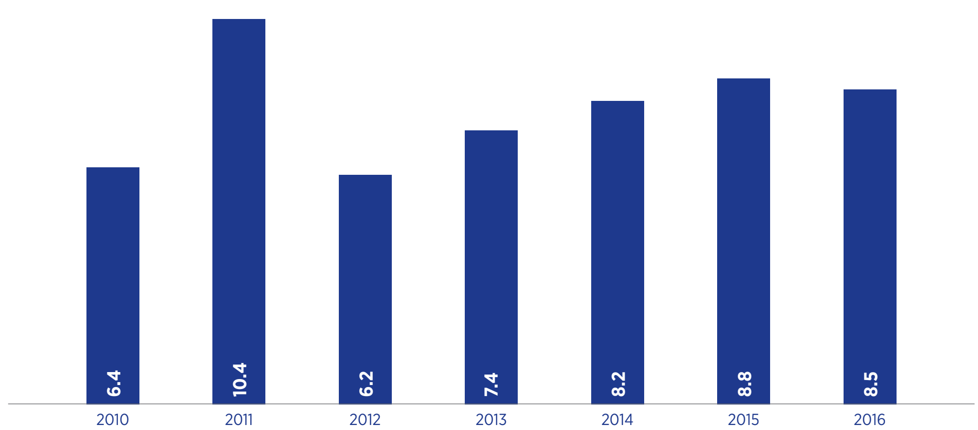
especially oil and metals, increased in this period and negatively affected producer prices. The higher prices spread to producer prices sub groups across the board.

Manufacturing industry prices increased a quarterly rise of 6.73% while the group's annual inflation rate rose to 12.07%. Likewise, there was also a significant increase in manufacturing industry inflation (excluding oil and base metals) in this period.

Budget realizations broadly in line with targets

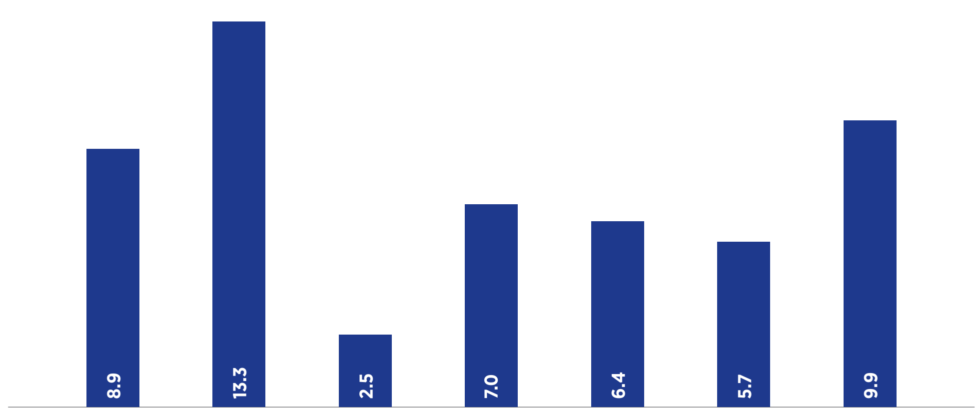
Fiscal discipline remained strong suit of the Turkish economy in 2016. The central government budget deficit came in at TL 29.3 billion while the non-interest budget surplus was TL 21.0 billion in the same period. Tax receipts increased at a moderate rate of 12.5% YoY and the central government's budget income rose by 14.8% thanks to contributions from non-tax income, which had posted a strong 33.1% YoY growth. Non-interest budget spending rose by 17.7% YoY in 2016, significantly higher than the rise in budget receipts. This resulted in a reduction in the non-interest surplus when compared to the previous year. However, the

Inflation in Turkey (CPI, %)



Source: TURKSTAT

Inflation in Turkey (WPI, %)



Source: TURKSTAT

Changes in Prices (%)

	2010	2011	2012	2013	2014	2015	2016
Annual Average							
Domestic Producer Price Index	8.5	11.1	6.1	4.5	10.3	5.3	4.3
Consumer Price Index	8.6	6.5	8.9	7.5	8.9	7.7	7.8
Year End							
Domestic Producer Price Index	8.9	13.3	2.5	7.0	6.4	5.7	9.9
Consumer Price Index	6.4	10.4	6.2	7.4	8.2	8.8	8.5

Source: TURKSTAT

The 2023 vision is aimed at increasing social welfare and to increase Turkey's place in the economic global ranking by attaining high growth rates in a sustainable manner.

decrease in interest payments in 2016 when compared to 2015 did limit the increase in the budget deficit.

Central Bank of the Republic of Turkey (CBRT) maintained its stance which supports financial stability.

Maintaining fiscal discipline in recent years has been one of the main factors that has limited the sensitivity of the Turkish economy to external shocks. The CBRT maintained its stance of a tight approach to inflation, balancing foreign exchange liquidity and financial stability. The CBRT was able to simplify its interest corridor policy between March and September thanks to a decrease in inflationary pressure, the tightness of financial conditions and a more moderate trend in global markets. The CBRT cut interest rates by 250 basis points in total during this period. The CBRT did not change its interest rate policy on October but then increased the upper boundary of the interest rate corridor by 25 basis points and its policy rate by 50 basis points in November, responding to the volatility in exchange rates. In doing so, the CBRT carried out moderate tightening in its monetary policy. As a result, the marginal lending rate stood at 8.50% while the borrowing rate was 7.25% and the one-week repo rate stood at 8%. The weighted average lending rate, which had decreased to 7.7% with the CBRT's decision to cut interest rates, increased to 8.3% in December.

Looking to the future

The most important indicator of a country's economic performance is its growth rate.

The growth rate is the combined result of developments on both the supply and demand sides. The rate of growth has assumed critical importance for developing countries like Turkey, which have a relatively high rate of population increase and unemployment rate.

The 2023 vision is aimed at increasing social welfare and reaching a higher place in the global ranking in terms of the size of its economy, by attaining high growth rates in a sustainable manner.

The banking sector maintains its sound structure

There were a total of 11,747 branches and 210,910 personnel in the Turkish banking sector as of December 2016.

The growth in deposits in the Turkish banking sector gained pace in the final weeks of the year, while the recovery in exchange rates and consumer loans impacted the growth in loan volume.

The Turkish Banking Sector in Figures
There were a total of 52 banks operating in the Turkish banking system as of the end of 2016, which included 34 deposit banks, 13 development and investment banks and 5 participation banks. Three of the deposit banks are backed by public capital while nine of them are backed by private capital, and 21 by foreign capital. Three of development and investment banks and two of the participation banks are also backed by public capital.

2016 was very active year for the banking sector in terms of mergers and acquisitions (M&A). In June, Finansbank was acquired by Qatar National Bank S.A.Q. (QNB Group), Qatar's biggest bank and the leading financial institution in the Middle East and Africa. In July, the Commercial Bank (P.S.Q.C.), one of the most important banks in the Gulf region and the first private bank in Qatar, acquired the remaining 25% shares of ABank from Anadolu Group. By doing so, the Commercial Bank became the owner of all shares in ABank. In addition, the Bank of China gave the go-ahead for the foundation of a deposit bank in May.

The slowdown in economic growth lowered the rate of asset growth in the banking sector. This was combined with banks' efforts to reduce their operational costs, leading to a decrease in the number of branches and personnel.

According to BRSA data, deposit, development and investment banks had a total of 11,747 branches as of December 2016.

According to data provided by the Banks Association of Turkey, the deposit banks had an average of 316 branches per bank in 2016; this figure was 1,234 for deposit banks backed by public capital, 459 for deposit banks backed by private capital and 138 for banks backed by foreign capital.

The total number of employees in deposit banks, development banks and investment

Number of Banks

	December 2016
Deposit Banks	34
Development and Investment Banks	13
Participation Banks	5
Total	52

Source: BRSA, December 2016

Number of Bank Branches and Personnel

	December 2016	
	Branches	Personnel
Public Banks	3,799	62,705
Private Banks	4,143	74,850
Foreign Banks	3,805	73,355
Total	11,747	210,910

Source: BRSA, December 2016

Turkish Banking Sector Selected Balance Sheet Indicators

	Amount (TL billion)	2015-2016 Change (%)
Assets		
Cash and Cash Equivalents*	222	47.6
Reserves	184	-10.8
Loans	1,734	16.8
NPL (Gross)	58	22.1
Securities	352	6.6
Other Assets	238	28.4
Total Assets	2,731	15.8
Liabilities		
Deposits	1,454	16.7
Debt to Banks	418	15.6
Repo Transactions	138	-12.0
Securities Issued	116	18.8
Shareholders' Equity	300	14.5
Other Liabilities	305	30.5
Total Liabilities	2,731	15.8

*Includes the total amount of cash, CBRT, and receivables from money markets and banks.

Source: BRSA

banks stood at 210,910 as of the end of 2016. As of December 2016, 29% of the employees were working in deposit banks backed by public capital, 37% in deposit banks backed by private capital, 31% in deposit banks backed by foreign capital and 3% in development and investment banks.

When compared to 2015, in 2016 there was a decrease of 625 in the number of employees working for deposit banks backed by public capital, a decrease of 1,014 in the number of employees working in deposit banks backed by private capital, a decrease of 2,842 in the number of those working in development and investment banks but an increase of 6 people working for the Fund bank.

The average number of employees per branch was 18 for deposit banks and 130 for development and investment banks. Banks backed by public capital had an average of 16 employees per branch while banks backed by private capital had an average of 18 employees per branch and banks backed by foreign capital had 21 per branch.

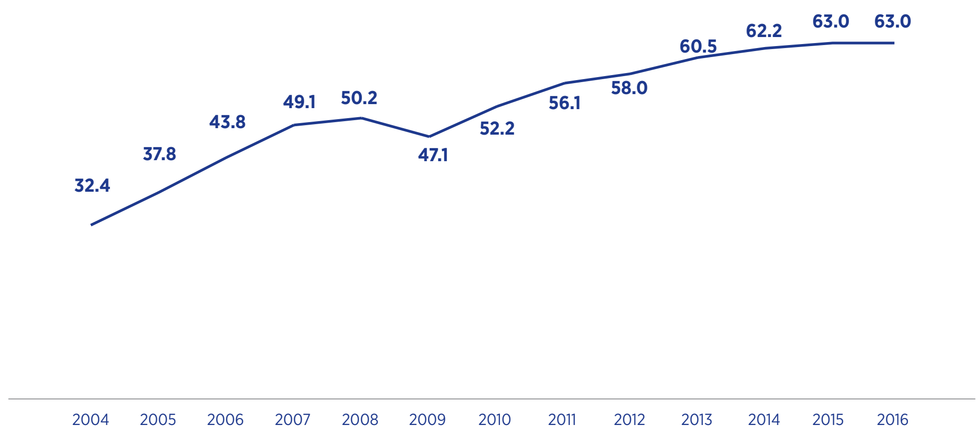
Turkish Lira weakness leaves banks' balance sheets more vulnerable.

According to the evaluations of the Global Financial Stability Report, which was prepared by IMF in 2016, regarding Emerging Market Economies (including Turkey), bank and company debts have reached USD 3.5 trillion. According to the report, large central banks applied unconventional monetary policies after the 2008 economic crisis. The abundance of liquidity positively contributed to the growth performances of emerging market economies. The Turkish banking system maintained its sound stance in the face of the crisis thanks to its strong asset quality, robust liquidity structure, high capital adequacy, effective risk management and internal control systems.

However, it was observed that the capital which had flowed into emerging market economies exited as the Fed started its normalization process in the third quarter of 2013. This resulted in sharp devaluations in the currencies of these countries against the USD. The fragility of banks' balance sheets and, in particular, the non-bank private sector has increased with the impact of the weaker Turkish Lira.

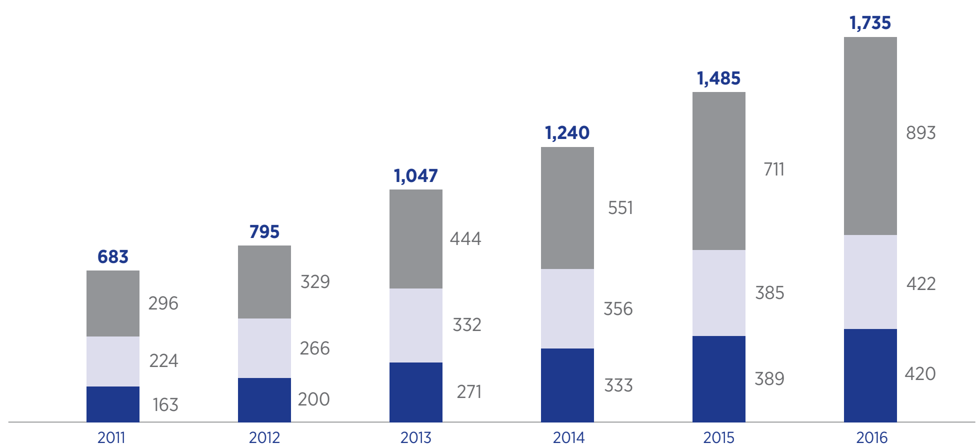
In its Turkey evaluation report, the IMF stated that Turkey had been affected by large scale and short-term capital flows, along with other emerging market economies, due to liquidity abundance resulting from the Fed's unconventional monetary policies applied after the crisis. Interest rates decreased and

Ratio of Loans to Total Assets (%)



Source: BRSA

Development in Loan Types (TL billion)



■ Commercial and Corporate ■ Consumer Loans and Credits Cards ■ SME

Source: BRSA

The total asset size of the banking sector grew by 15.8% YoY in 2016 to reach TL 2.7 trillion.

loan volume increased in Turkey thanks to foreign capital and global interest rates, which were close to zero. The decrease in policy interest rates and interest rates drove the banking sector towards riskier assets and loans, which carry higher risks. Another issue that may pose a threat to the banking system is the rapid increase in off-balance sheet transactions since 2010. This has resulted in the banking sector operating with higher leverage, which may increase the risks to the system.

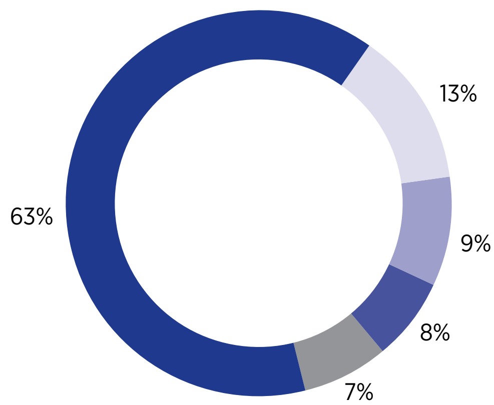
Banking sector reaches a total asset size of TL 2.7 trillion.
The total asset size of the banking sector grew by 15.8% YoY in 2016 to reach TL 2.7 trillion. Loans, which account for the highest share among total assets with a 63% share, increased by 16.8% YoY to TL 1.7 trillion in the same period. Required reserves, on the other hand, which are among assets, decreased by 10.8% YoY to TL 184 billion as the CBRT lowered the required reserve ratios. On the liabilities side, deposits have the highest share (53%). Deposits increased by 16.7% YoY in 2016 to TL 1.5 trillion. The sector's net profit stood at TL 38 billion last year.

The shares of foreign currency in total assets and liabilities stood at 40% and 46%, respectively. The shares of foreign currency in loans and deposits stood at 35% and 42%, respectively.

Total size of non-cash loans was TL 552 billion as of December 2016. Letters of guarantee comprised the highest share in non-cash loans (75%) followed by letters of credit (14%).

Moderate loan growth in 2016 thanks to macro-prudential policies implemented to support the financial system
Loan growth followed a moderate increase in 2016 thanks to the macro-prudential policies carried out to support the financial system, the CBRT's liquidity measures and public finance incentives. The net loan utilization to GDP ratio is an important indicator of financial stability and shows the relationship between loan growth, economic activity and total demand. This ratio increased slightly when compared to the previous year to reach 69.2% in 2016.

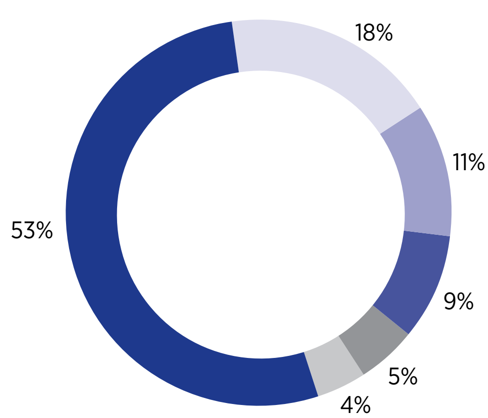
Distribution of Assets (2016)



	(TL billion)
Loans	1,734
Securities	352
Other Assets	238
Cash and Cash Equivalents	222
Reserves	184

Source: BRSA

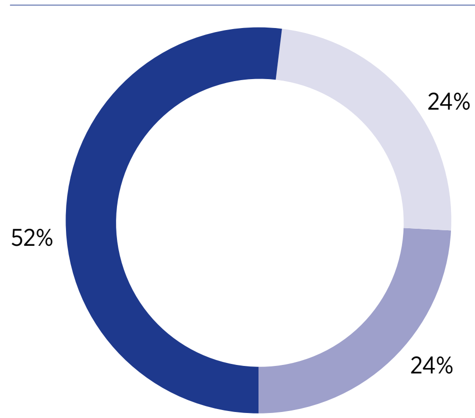
Distribution of Liabilities (2016)



	(TL billion)
Deposits	1,454
Debt to Banks	418
Shareholders' Equity	300
Other Liabilities	305
Repo Transactions	138
Securities Issued	116

Source: BRSA

Distribution of Loans (2016)



	(TL billion)
Commercial and Corporate	893
SME	422
Consumer Loans and Credits Cards	420

Source: BRSA

A total of TL 1,734 billion in loans were extended by the banking sector in 2016. In terms of the currency breakdown, TL 1,131 billion of this of this amount was Turkish lira denominated while TL 603 billion was in foreign currency.

In terms of the breakdown of loans, the share of commercial and corporate loans was 52%, while share of loans to SMEs was 24% with consumer loans and credit card loans accounting for a 24% share of total loans.

According to 2016 year-end figures, commercial and corporate loans reached TL 893 billion while SME loans increased to TL 422 billion and consumer loans and credit cards reached TL 420 billion.

The construction sector and wholesale trade and commissioning sectors were the top sectors with 8.12% and 8.02% shares in total loans, respectively.

In SME loans, the largest amount of loans were provided to medium sized enterprises (TL 172 billion) with TL 140 billion of loans extended to small enterprises and TL 110 billion to micro enterprises.

Increase in consumer loans attributable of all items across the board

It was noted that the increase in mortgage loans exceeded the historical averages. The annualized growth rate in mortgage loans stood at 27.5% as of the year-end. The annualized growth rate of consumer loans also increased significantly in the last quarter to come in at 18%. In the same period, the annualized rate of growth in vehicle loans, at 27%, exceeded its historical average as demand was brought forward ahead of the increase in special consumption tax.

Wholesale trade, textile and retail sectors suffer from highest non-performing loan ratios.

The gross volume of non-performing loans in the banking sector stood at TL 58 billion as of the end of 2016. The non-performing loan ratio of the sector increased to 3.24%, the highest figure since 2010 when it reached 3.66%. The non-performing loan ratio stood at around 4.5% for consumer loans and consumer credit cards, while it was around 3% for commercial loans.

By sector, the highest NPL ratios were seen in the wholesale trading (4.74%), textiles (3.98%), retail trading (3.95%) and construction sectors (3.69%).

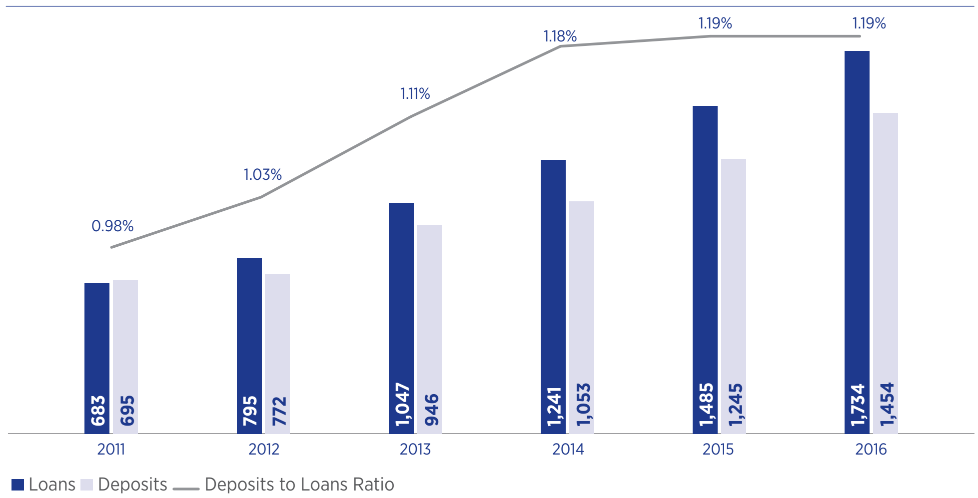
A total of TL 1,734 billion in loans was extended by the banking sector in 2016, with the highest share of loans issued to the construction sector (8.12%) and the wholesale trade and commissioning sector (8.02%).

The banking sector's return on assets increased from around 1.48% in 2015 to 1.89% in 2016.

The non-performing loan ratio of 4.5% in consumer loans in 2016 represents the highest level since the 6.4% figure in 2009.

The highest non-performing loan ratio among consumer loans was for consumer credit cards, at 8.7%. This was followed by consumer loans, which had a 6.2% NPL ratio, vehicle loans (3.5%) and mortgage loans (0.4%).

Developments in Deposits, Loans, and Loans to Deposit Ratio (TL billion, %)



Source: BRSA

Banks' 12-month net profit rises to TL 38 billion.
The banking sector recorded an increase in its profitability margins in 2016. The sector's interest income was TL 195 billion with interest expenses of TL 103 billion in 2016. The sector's net profit increased to TL 38 billion in 2016. In this period, local private banks recorded a net profit of TL 14.2 billion while public banks booked a net profit of TL 13.5 billion and foreign banks recorded a net profit of TL 9.9 billion.

In terms of the return on equity (RoE), public banks recorded a RoE of 15.13%, local private banks posted a RoE of 14.61% and foreign banks recorded a RoE of 12.85%. The overall RoE of the sector was 14.28%. The return on assets, meanwhile, increased from 1.48% in 2015 to 1.89% in 2016.

2017 expected to be a tough year for the banking sector.
With the BRSA's regulation on the measurement and evaluation of capital adequacy ratios in 2016, the level of capital that banks are obliged to reserve was changed. With this regulation, there was an increase in banks' capital adequacy ratios.

Another BRSA regulation was on the classification of loans and provisions to be set for loans. With a regulation made in line with Basel III compliance, banks will conduct risk measurements for their customers and ensure their internal policies are compatible with this. Provisions will be determined on customers' risks as banks calculate different risks for each customer. This regulation will enter effect from the beginning of 2018. Banking profits are expected to increase after this regulation enters force.

Under Basel III regulations, Banks will carry out risk measurements for their customers and ensure their internal policies are compatible with this. Provisions will be determined based on customer risks as banks calculate different risks for each customer. This regulation will enter effect from the beginning of 2018. Banking profits are expected to increase after this regulation is put in force.

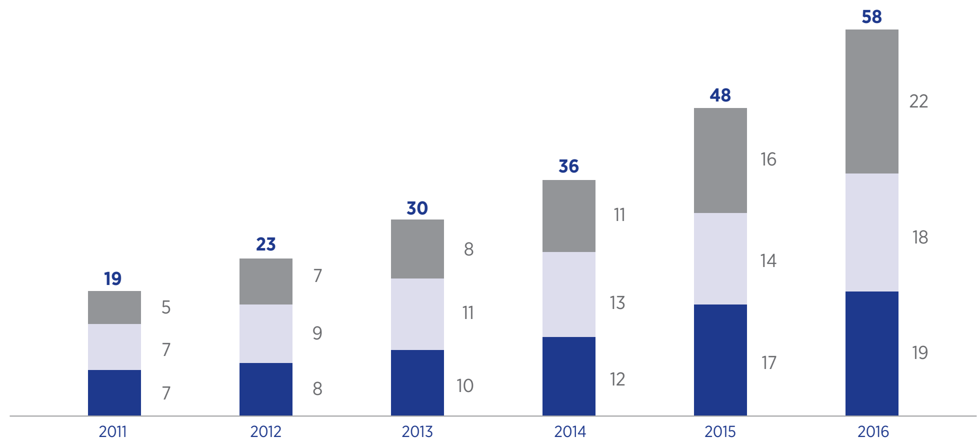
An increase in the rates of profitability and higher capital adequacy ratios marked positives for the Turkish banking sector in 2016 while non-performing loans were hovering at high levels. The deterioration in companies' balance sheets resulting from the recent exchange rate movements did play a part in the increased non-performing loan rates. This ratio is anticipated to increase in 2017 on the back of the devaluation of the Turkish lira.

It is expected that the rate of loan growth could slow even if there are no interest rate hikes in the coming period, because the loan deposit rate is high and the difficulties in generating additional resources. It is considered that this situation shows that 2017 will be a more difficult year than 2016 in terms of profitability.

The cost of syndication loans provided by foreign banks has been rising as Turkey's risk premium has increased recently. As a result, the debt rollover ratio is expected to decrease, especially with Fitch's potential cut of a notch in Turkey's credit rating in 2017. In addition, the forecasts regarding the sector may be positively affected by the prospect of stronger growth in 2017 than in 2016 and better figures from domestic demand and tourism when compared to 2016.

It could be claimed that the strength and growth rate of the sector are sufficient for it to handle potential external shocks and maintain its growth performance provided there are no new negative shocks on the domestic front in 2017.

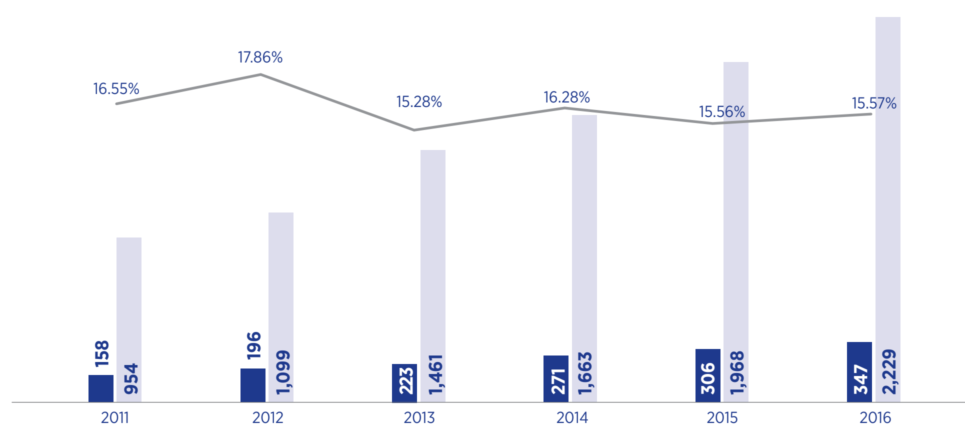
Non-Performing Loans (Gross) (TL billion)



■ Consumer Loans and Credits Cards ■ Commercial Loans ■ SME Loans

Source: BRSA

Legal Capital, Risk Weighted Assets and Capital Adequacy Ratio (TL billion, %)



■ Legal Capital ■ Risk Weighted Assets — Capital Adequacy Ratio

Source: BRSA

Participation banks kept their growing momentum in 2016.

Participation banks recorded 10.5% YoY growth in their total assets to TL 133 billion in 2016, with a market share of 4.9%.

The Turkish participation banking sector shows sustainable growth.
Participation banking sector maintained and strengthened its sustainable growth trend in 2016 despite global and domestic economic and political volatilities.

2016 was an active year for the Turkish participation banking sector. Assets and the base of the system were further strengthened with the addition of the Vakıf Participation Bank to the system, following the entry of the Ziraat Participation Bank to the system in the previous year.

Despite the short history of the sector in Turkey, the five participation banks operating in the country once again demonstrated the success of the participation banking sector in the basis of their size at the end of 2016, their market shares and their strong penetration rates in various segments from SME to corporate banking.

The sector maintained its activities in 2016 with five players; Albaraka Türk, Kuveyt Türk, Türkiye Finans, Ziraat Participation and Vakıf Participation.

The total asset size of the participation banks grew by 10.5% YoY to TL 133 billion in 2016 while their market share stood at 4.9%.

Volume of funds collected and funds extended holds firm.
The volume of funds collected reached TL 81.5 billion, marking growth of 9.6% as a result of the successful performance of sector members in 2016.

Participation banks operated in a relatively cautious manner in 2016. Participation banks once again demonstrated that they are the biggest supporter of the real sector under all conditions. Funds extended to the real sector grew by 7.2% YoY to reach TL 84.8 billion.

The participation banking sector commanded a 5.6% share of funds collected 4.8% of funds extended in the overall banking sector in 2016.

In 2016, the ratio of funds extended to funds collected maintained its 2015 level of 105%.

On the other hand, the amount of funds collected per branch and funds extended per branch increased by 24% and 22% respectively as the operations of one of the players in the sector, which was transferred to the SDIF, were terminated and its branches closed down.

A decrease in the number of branches and personnel in the sector due to the termination of operations of one participation bank
The number of branches and personnel in the sector decreased as the branches of the bank, which was taken under the control of the SDIF, were closed.

As of the end of 2016, the five participation banks operating in Turkey had 959 branches, three of which were located abroad. The banks in the sector maintain their organic growth, but have slowed down the pace of expansion in their branch networks in line with negative effects from foreign and domestic macroeconomic developments. The number of participation bank branches represented 8.2% of the sector's branch network as of the end of 2016.

Participation banks employed a total of 14,465 people as of the end of 2016. This figure represents 6.9% of the sector's total employment.

Further increases in the sector's equity and Capital Adequacy Ratio
The sector's equity maintained its sound structure in 2016 with the total equity of participation banks increasing by 8% to reach TL 11.5 billion and its share in the total equity of the banking sector standing at 3.8%. The sector's equity, which grew at a CAGR of 25.4% between 2005 and 2016, is targeted to increase at a higher rate.

Participation banks increased their capital adequacy ratio from 14.5% to 16.2% despite exchange rate volatility and the negative effects of Basel III regulations. Participation banks maintained their performance, so in this sense performed better than the banking sector.

The participation banking sector completed 2016 with a net profit of TL 1,106 million, marking an impressive 170% growth. In line with this, the share of participation banks' profit in the sector increased from 1.6% to 2.9%.

The participation banking sector rounded off 2016 with a net profit of TL 1,106 million, marking an impressive 173% growth. In line with this, the share of participation banks' profit in the sector increased from 1.6% to 2.9%. The decrease in market share, number of branches and number of personnel were all the result of a bank that exited the system.

Increased financial deepening in the participation banking sector

The performance of participation banks in 2016 raised growth expectations for the coming period with the contribution of new public participation banks in the sector as well. Sukuk (lease certificate) issuances by both the Treasury and participation banks have contributed to the increased financial deepening in the sector.

Participation banks have been able to steadily increase their funding opportunities at favorable costs and maturities thanks to various structured financing products in international markets. Participation banks transform these opportunities into the ability to extend funding where customers can obtain a competitive advantage. Participation banks also played an important role in the Murabaha financing obtained from the Gulf region through syndications and which has gradually become more widespread. Participation banks have increased their transaction volumes in this area.

The Interest Free Finance Coordination Board has a critical responsibility to reveal the high potential of participation banks. The Board was gathered for the first time at the beginning of 2016 under the leadership of the Deputy Prime Minister responsible for the Treasury. The Board determined several areas of development in meetings attended by high-level delegates. The Board provided contributions to the necessary legislation and implementation by increasing product and service diversity. Participation banks are expected to provide more support to the economy in the coming period with the valuable contributions of the Board. It

Participation Banks in Turkey: Branches and Employees (2004-2016)

Year	Number of Branches	Growth (%)	Number of Personnel	Growth (%)
2004	255	36	4,789	36
2005	290	14	5,740	20
2006	355	22	7,114	24
2007	422	19	9,215	30
2008	530	26	11,022	20
2009	569	7	11,802	7
2010	607	7	12,677	7
2011	685	13	13,851	9
2012	828	21	15,356	11
2013	966	17	16,763	9
2014	990	2	16,270	-3.1
2015	1,080	9	16,554	1.7
2016	959	-11.2	14,467	-12.6

Source: PBAT, BRSA

Participation Banks in Turkey: Key Indicators (TL million)

	2015	2016	Change %
Funds Collected TL	40,740	48,313	18.6
Funds Collected FC (including precious metals)	32,622	33,192	1.7
Total	74,362	81,505	9.1
Funds Allocated	79,191	84,880	7.2
Total Assets	120,252	132,874	10.5
Shareholders' Equity	10,642	11,494	8.0
Net Profit	409	1,106	170.0

Source: PBAT, BRSA, CBRT

Participation Banks in Turkey: Total Assets and Share in the Banking Sector (TL million, 2012-2016)

	Total Assets	Change %	Share %
2012	70,245	25.3	5.1
2013	96,022	36.7	5.5
2014	104,073	8.4	5.2
2015	120,252	15.27	5.1
2016	132,874	10.5	4.9

Source: PBAT, BRSA

The total volume of Sukuk issuances in Turkey between 2010-2017 reached TL 44.4 billion.

is also expected that the Board will enable participation banks to play a critical role in achieving Istanbul's aim of being a finance center.

Turkey maintains an active Sukuk market. Sukuk (lease certificate) attracts interest as an instrument, which has gradually gained more importance in providing funding with the development of participation banking in Turkey.

The Capital Market Board defined Sukuk for the first time the communique in 2010. The first issuances were only made with the sale and lease back method. The CMB revised the communiqué in 2013 and defined five new lease certificate types that are based on internationally accepted ownership, management contract, trading, partnership and contract of work.

The total volume of Sukuk issuances in Turkey between 2010-2017 reached TL 44.4 billion with 63% of the issuances offered to the market by the Treasury while 37% were carried out by banks and companies.

When analyzed globally, local currency denominated Sukuk issuances have 3 times the volume of foreign currency denominated Sukuk issuances (international issuances). In Turkey, on the other hand, international Sukuk issuances have a volume 2.6 times higher than local Sukuk issuances.

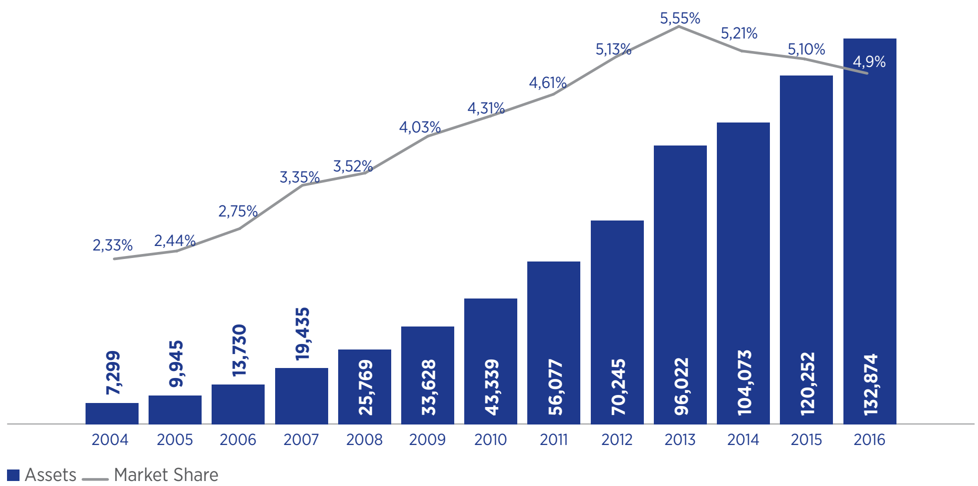
The Treasury issued one international and five local Sukuk in 2016. The volume of international Sukuk issuances reached USD 1 billion while the volume of total issuances stood at TL 9.2 billion.

The Treasury carried out an inflation based Sukuk issuance for the first time in Turkey in September 2016.

The volume of the 33 Sukuk issuances that were issued by the private sector in 2016 was TL 5.9 billion.

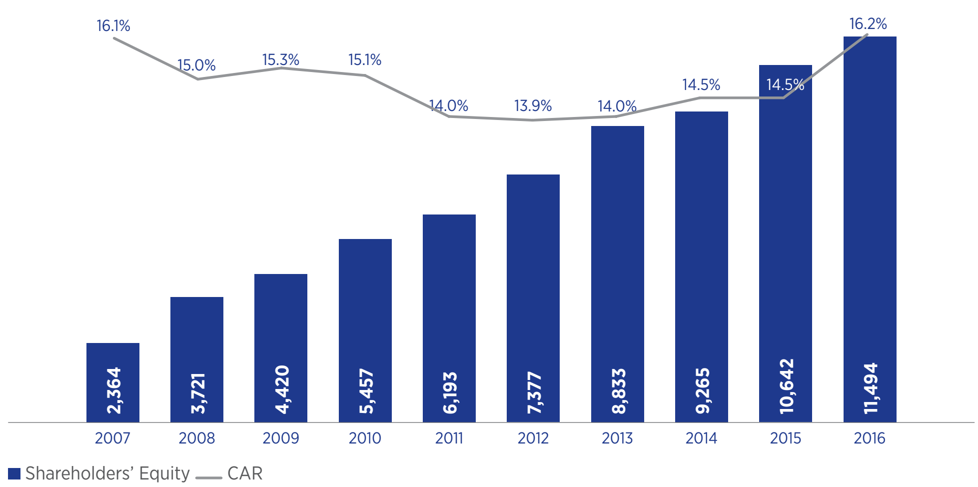
It is expected that importance and share of lease certificate issuances in the market will increase in the coming period. The lease certificate product is an important and

Participation Banks' Assets Development and Market Share (TL million, %)



Source: PBAT

Participation Banks' Shareholders' Equity and CAR Development (TL million, %)



Source: PBAT

Total Sukuk Issuances Between 2010-2017 Q1

	USD (thousand)	MYR (MYR thousand)	TL (TL thousand)	Total TL Equivalent (TL thousand)
Private Sector	3,600,000	1,960,000	6,848,705	16,391,605
Public	4,750,000		17,782,449	28,042,449
Total	8,350,000	1,960,000	24,631,154	44,434,054

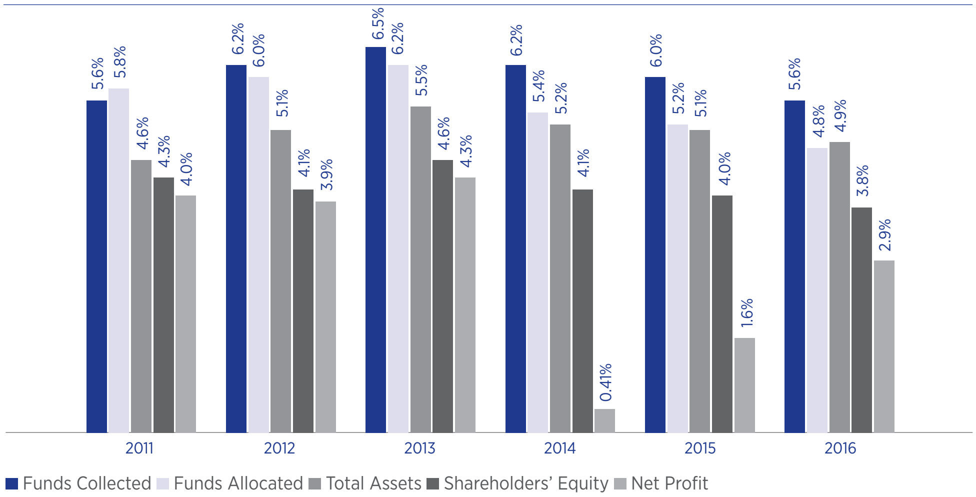
Source: PBAT

attractive option not only for participation banks but also for deposit banks as it allows them to diversify their funding base.

The participation banking sector is committed to a strong future with its dynamic structure and working principles. Turkey achieved its high growth momentum in participation banking thanks to the increase in investment since 2008. Turkey is ranked among the ten fastest growing countries, with an asset size of USD 51.7 billion in 2015, exceeding that of Indonesia. The sector's strengths, which have been reinforced recently thanks to its breakthroughs, can be summarized as follows:

- Sustainable growth in assets, funds collected and funds extended; increased customer demand for interest free products and services;

Participation Banks' Share in the Banking Sector (%)



Source: PBAT, BRSA

- The high return on equity and return on assets when compared to medium sized banks;
- A strong correspondent bank network in the MENA regions; increased foreign trade with MENA regions and Islamic countries;
- The opportunity to create a difference in precious metals products with its interest free gain;
- Increased state support for SMEs, especially in Anatolia; the development in strategy and tax applications to enhance the formal economy;
- Increased customer/participant awareness of the banking system;
- Potential to increase interest free income by differentiation in banking services.

In view of the macroeconomic indicators of the Turkish participation banking sector and the growth figures of the banking sector, the participation banking sector is expected to reach a market share of 15% in 2025. The sector needs to achieve stronger growth momentum in order to reach this target, which demonstrates the 2025 vision and which was stated in the strategy document of the PBAT.

The share of participation banking in the banking sector indicates that participation banking offers serious growth potential. With a share of just 5-6% in the global participation banking sector, Turkey is not at the position it deserves when compared to countries where the practice of participation banking is widespread.

Some of the measures that can be taken to support growth in the participation banking sector can be listed as follows:

- Following a more proactive approach to boost market share in the credit card market,
- Reaching a par with traditional banks in the use of online and mobile banking,
- Increasing the liquidity ratio,
- Increasing geographical access,
- Carrying out amendments in legislation and products; increasing product diversity; entering niche areas, providing product diversity,
- Increasing the use of lease certificate (Sukuk) and Murabaha; realizing growth in the area of Islamic insurance with the facilitation of new companies in this area,
- Addressing the lack of information about participation banking products among investors and customers and increasing recognition.

The entry of new banks into the participation banking sector marked a milestone for the sector. It is anticipated that recent developments in participation banking in Turkey and the recent initiatives taken by the state will contribute to the development of the sector. It is also expected that these factors will have an important bearing on the growth of the sector in which Gulf capital backed institutions have been active so far.

According to S&P projections, the average rate of growth in the Turkish banking system is expected to decrease in the 2016-2019 period. Participation banks are expected to post much stronger financing growth than traditional banks.

The global domain of interest free finance sector is expanding

It is estimated that the total assets of global interest free finance, representing nearly 2% of global financial assets, exceeded USD 2 trillion as of the end of 2015.

The interest free finance system continues to grow despite challenging macroeconomic and political conditions.
A significant portion of global interest free financial assets are managed in three geographical regions; the Gulf Cooperation Council (GCC) countries, Southeast Asia, and other MENA countries.

The core markets of the global interest free finance system are Qatar, Indonesia, Saudi Arabia, Malaysia, the United Arab Emirates, Turkey (QISMUT), Bahrain, Kuwait and Pakistan.

The global interest free finance system, which has achieved significant growth in recent years, succeeded in maintaining a growth trend, despite the economic slowdown in the core interest free finance markets caused by a number of factors such as the sharp decline in oil prices, low levels of commodity prices and the significant depreciation in the currencies of developing countries. The political instability in the Middle East has also exacerbated the pressure from macroeconomic conditions.

As a result of these developments, it is estimated that the total assets of global interest free finance, representing nearly 2% of global financial assets, exceeded USD 2 trillion as of the end of 2015.

In 2016, falling oil prices continued to impact these oil exporting countries, which are dependent on oil exports for their economic growth, and which are also the driving force of the global interest free financing system, especially GCC member countries representing 46% of the system's assets. This has had a negative reflection on the interest free finance system.

The stock markets of GCC countries witnessed low transaction volumes and stocks suffered losses. According to data provided by S&P, the growth in the interest free banking assets of these countries slowed from 13% in 2014 to 6% in 2015.

Qatar, which sustained its strong growth, ranked 5th in the world in terms of interest free financial assets, while Kuwait, which is one of the core markets of the global interest free finance system, saw a decline in total assets.

Due to the decline in energy prices since mid-2014, significant budget deficits have occurred in the countries whose economies depend on the commodity trade, especially countries in the GCC. Governments in search of new sources of income seeking to narrow these deficits have started to use interest free financing instruments, especially the Sukuk.

In addition to those countries affected by the low levels of commodity prices, two of the most important interest free financial markets, Malaysia and Indonesia, were hit hard by the decline in Chinese imports because of the slowdown in the Chinese economy and the balancing process. The volume of assets in Malaysia, which is the world's third largest interest free financial market, contracted by 11% in 2015 due to the devaluation of the Malaysian ringgit. Indonesia's interest free financial assets also declined by 4% with the devaluation of the local currency.

1,329 companies operating in the global interest free financial system
According to data included in the 2016 ICD Thomson Reuters Interest Free Finance Development Report, the total assets of

A total of 1,329 companies operate in the global interest free finance system of which 480 are participation banks offering services on the basis of interest free banking. Of these, 322 are Takaful companies and 527 are other financial institutions.

the interest free finance system amounted to USD 2,003 billion as of the end of 2015, with 8% growth. The main source of growth was interest free banking, representing approximately 73% of total interest free financial assets.

In terms of the distribution of assets in the same period, the following points emerge,
- The total assets of the interest free banking sector amounted to USD 1,451 billion (73%),
- The total value of Sukuk market assets amounted to USD 342 billion (17%),
- The total value of interest free funds amounted to USD 66.4 billion (3%),
- The sum of the assets subject to Takaful amounted to USD 37.7 billion (2%),
- The total assets of other interest free financial institutions amounted to USD 106.4 billion (5%).

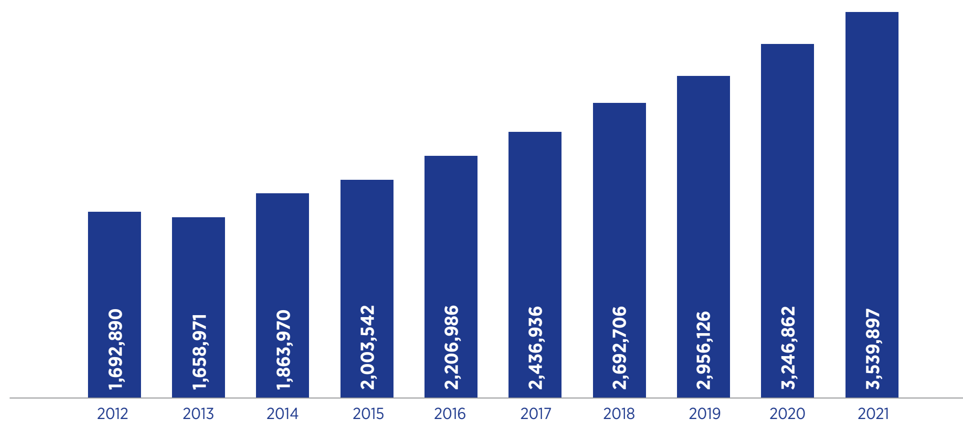
A total of 1,329 companies operate in the global interest free finance system, of which 480 are participation banks offering services on the basis of interest free banking, 322 are Takaful (interest free insurance) companies and 527 are other financial institutions.

In terms of the assets within the scope of the global interest free finance system, Saudi Arabia ranks first with USD 447 billion of assets under management. Iran ranks second with USD 434 billion of assets, followed by Malaysia with USD 414 billion. These three countries hold 65% of the total global interest free assets.

In terms of interest free banking, Iran is the leading country with USD 379.7 billion of assets, while in terms of interest free banking, the top three countries manage 61% of the assets.

Malaysia is the leader of the Sukuk category with USD 188.7 billion, and also in terms of interest free financial institution assets with USD 39.5 billion. Saudi Arabia ranks first in

Assets Development of Interest Free Finance System (USD million)



Source: ICD Thomson Reuters

interest free funds (with USD 22.3 billion of assets) and Takaful (with USD 14.2 billion of assets).

Only the 'other' interest free financial institutions segment recorded a decline in assets in 2015.

Sukuk and interest free funds continued to be interest free capital markets asset types to demonstrate the strongest growth among all interest free financial assets.

The Sukuk market grew by 14% and the interest free funds grew by 15% in 2015 compared to 2014. The interest free banking and Takaful sectors posted growth of 6% and 11% respectively in the same period. The only segment to record a decline in total assets were 'other' interest free financial institutions, with a decline of 3% due to the decline in the value of total assets in Malaysia, whose currency devalued against the US dollar. The sharp decline in the value of total assets in Kuwait, which has 76 interest free financial institutions, the highest in the world, due to the fact that a large proportion of these institutions are based on investment and were adversely affected by the economic slowdown in 2015, precipitated a significant slump in the value of the total assets of other interest free financial institutions.

Other MENA countries outstrip Southeast Asia in total interest free financial assets.
Malaysia represents the heart of interest free finance in Southeast Asia. However, as a result of the decline in the value of Islamic financial assets, the region's interest free financial assets, along with those of other Southeast Asian countries, including Brunei, Thailand, Singapore and the Philippines, lagged behind the total assets of the MENA region, with a difference of USD 8 billion.

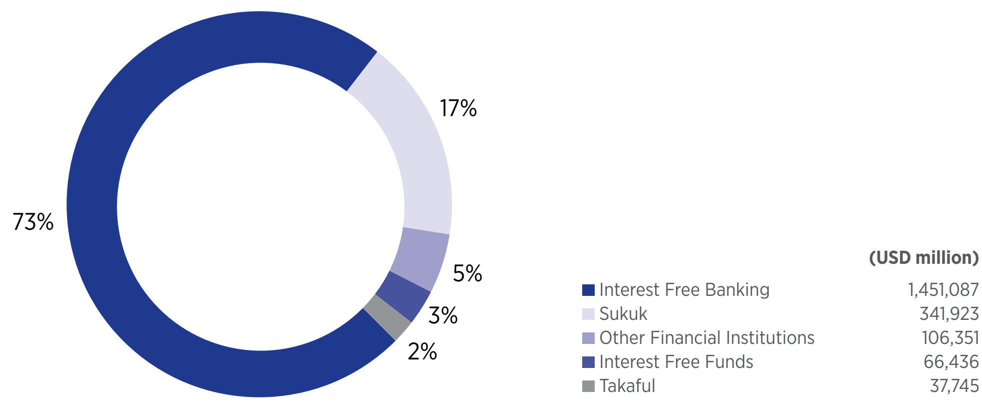
The MENA region is the second largest region in terms of the number of institutions and the largest region in terms of the number of Islamic banks. The strong growth of interest free banking in Iran, which is home to a concentration of interest free banking assets, has made MENA the world's second largest region in terms of assets. In 2015, Egypt, Iraq, Jordan, Syria and Lebanon also supported the growth of interest free financial assets of the region.

The interest free finance system is also accelerating its development beyond core markets.
Following Malaysia, which is one of the core markets, other Southeast Asian countries have also recognized the potential of the industry. Indonesia announced a five-year road map for the Islamic banking sector, including a new foreign ownership policy and issuance of a law requiring traditional insurers to make Takaful windows a fully-fledged separate unit. The application of such policies has increased the attraction of local Takaful and interest free banking markets.

In the direction of assessing the potential for growth of the sector in other Asian countries, in addition to Pakistan's efforts strengthening the conventional banking sector, new Sukuk rules and the Islamic Finance Department and the Sharia Board, the country spearheads with its permission for insurers' to operate with Takaful windows. In addition, India, which is the neighboring country to Pakistan, is also exploring opportunities to enter the interest free banking system in order to increase participation in the financial system.

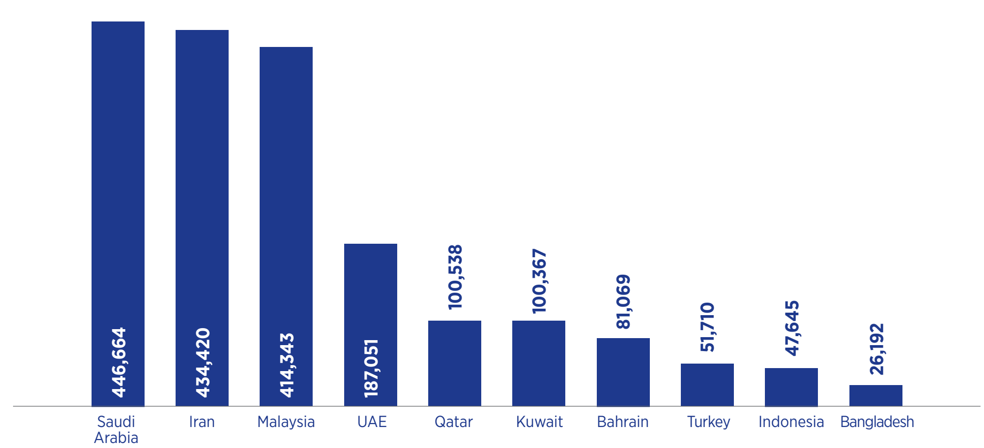
Another area with a bright future in terms of growth, especially in terms of Sukuk infrastructure, is Sub-Saharan Africa. While Togo was the most recent African Sukuk issuer in 2016, Kenya, Niger and Nigeria are developing new means to meet their infrastructure needs. In Eastern Africa, Uganda changed its laws in January 2016 to allow interest free banking products and then for fully-fledged banks or interest free banking windows to be established.

Breakdown of the Assets of Interest Free Finance (%) 2015



Source: ICD Thomson Reuters

Top 10 Countries as per the Assets of Interest Free Finance (USD million)



Source: ICD Thomson Reuters

The interest free finance system continues to develop beyond the core markets. After Malaysia, one of the core markets, other Southeast Asian countries are gaining awareness of the industry's potential.

The issuance of Sukuk in Hong Kong and Luxembourg in 2014 and Gambia's continuous issuance of Sukuk since 2008 have brought these countries into the top 10 countries in terms of growth in the field of interest free financial assets. Hong Kong exported another Sukuk worth USD 1 billion in 2015; as a result, the country's total issuance grew more rapidly than in all other economies.

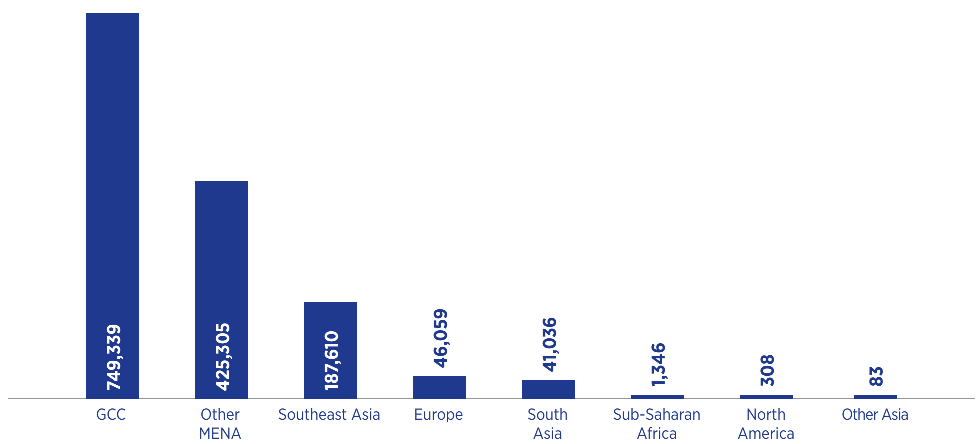
In the meantime, the volume of interest free funds managed in Italy and India have supported the growth in interest free financial assets.

Finally, the growth in Oman, which officially adopted interest free financing in 2012, was achieved through the combination of interest free banking, Takaful and Sukuk issuance.

The Saudi Vision 2030 and the return of Iran to the global marketplace will be important drivers of growth for the system.
Vision 2030, Saudi Arabia's reform plan is a plan designed to reduce the country's dependence on oil revenues which was put forward in response to the decline in oil prices. This plan, which envisages an increase in the state's non-petroleum revenues to SAR 1 trillion (USD 267 billion) by 2030 and an increase in the private sector's contribution to GDP to 65%, sets out new opportunities in terms of interest free banking and Sukuk.

Having proven its endurance to difficult conditions with the 15% growth in Islamic finance assets in 2015, Iran is the world's second largest interest free financial market with total assets of USD 434 billion. At the beginning of 2016, many of the sanctions imposed against Iran by the UN, EU and the US were lifted, allowing Iran potentially to access to global financial markets. Although Iranian companies are restricted in their ability to secure capital from Western markets, Iran attracts Middle Eastern investors looking to diversify their risk by investing in Iran's growing economy, which has become less dependent on oil.

Assets of Interest Free Finance per Region (USD million)



Source: ICD Thomson Reuters

Within the scope of the infrastructure development program, it is foreseen that the country will need USD 1 trillion of foreign financing together with the USD 100 billion of projects for the oil sector over the next ten years. Since Iran's banking system is fully Sharia compliant, these projects will gain momentum in the global interest free finance market, especially in terms of Sukuk, as the preferred funding source for infrastructure projects.

After the lifting of international sanctions, Iran's interest free finance and oil sectors will re-enter the global economy, albeit only gradually, even if the European and US banks have maintained their distance. Another reason for this slow entry is the regulatory reform that the country's banking sector needs in terms of surveillance and liquidity, while at the same time needing to quickly adapt to the global banking system, such as fulfilling the Basel capital adequacy requirements for banks.

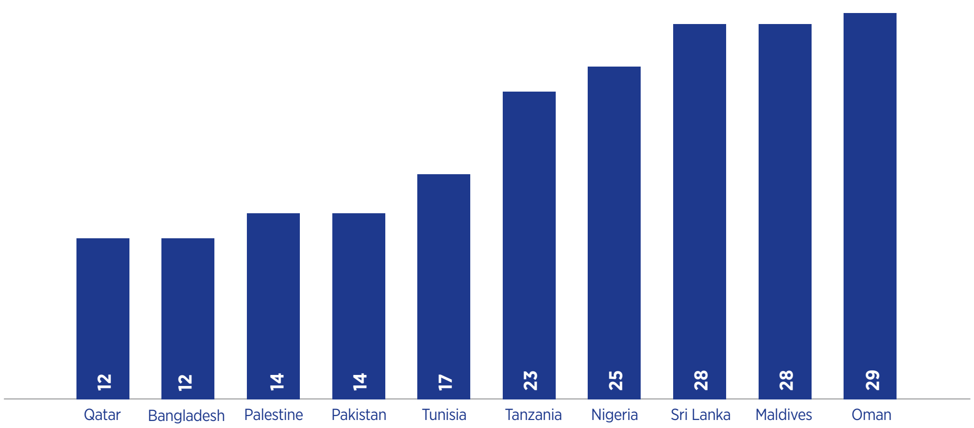
Developments in the Western interest free financial markets are also positive.
Although the British economy quickly overcame the shock of the Brexit vote, the slowing trend in the economy and the fall of the British Pound to a 30-year low indicates a difficult period ahead, at least in the short term. In the long-term, the UK, the largest interest free financial market in the West with interest free banking assets exceeding USD 4 billion, will be able to further strengthen its leading position in this field upon leaving the EU. It is thought that the UK will seek to overcome the hurdles to using EU funds by heading for interest free finance funds in infrastructure investments and will apply to Sukuk, especially in the financing of infrastructure and renovation investments. These developments will have a positive effect on the development of the interest free finance system.

Interest free funds will be able to further grow in countries in Europe and North

In 2016, Sukuk issuances increased by 26% in the core markets. It was observed that Sukuk issuances of the GCC member countries as well as Malaysia, Indonesia, Pakistan and Turkey rose to USD 40 billion in 2016 from USD 32 billion in 2015.

In 2017, it is foreseen that this pick-up in growth will continue with the entry of new issuer countries into the market and with increasing volumes.

The Countries where the Assets of Interest Free Finance Grow Fast (%-Average Growth Rate, until 2015)



Source: ICD Thomson Reuters

America, depending on Brexit offering the opportunity to invest in British real estate as a profitable interest free investment due to the weakness of the British Pound against the US dollar. In addition, Socially Responsible Investment Funds (SRIs), which demonstrated their appeal in Canada and the US, offer a similar exclusive structure. The globally focused interest free funds established in this region will also benefit from Saudi Arabia's opening of its securities market to foreign investors in September 2016. These funds will also benefit from Saudi Arabia's move to lower the boundaries of ownership and relax the minimum qualifications for foreign institutions from 2017.

Sukuk is still the fastest growing asset type, despite the slowdown in growth momentum.

At the end of 2015, the volume of Sukuk in circulation had increased by 14% compared to 2014 to reach USD 342 billion. Malaysia maintains its leading position in terms of Sukuk volume and the number of issuances in circulation.

Malaysian issuances constitute 55% of the total Sukuk volume in circulation globally and 88% of the Southeast Asian market. However, Malaysia's overall share has been declining when compared to previous years. Malaysia's issuance volume declined after the country's central bank the Bank Negara Malaysia (BNM) terminated the short-term Sukuk issuances. The central bank stated that most of the short-term Sukuk issuances had not met the objective of meeting the country's needs for interest free banking liquidity. The BNM said that a broad investor base bought the short-term Sukuk, rather than local Islamic banks. Instead, the bank will introduce different instruments that can only be used by interest free banks, including the issuance of interest free treasury bills that were launched in February 2016.

While Malaysia and Indonesia are in the top 10, Brunei and Singapore constitute the remaining Southeast Asian Sukuk market. The majority of the global Sukuk issuances in circulation were created by governmental institutions, mainly in Malaysia and Indonesia. In August 2016, Indonesia provided a presentation of "Savings Sukuk" that cannot be traded. This Sukuk is aimed at the domestic retail market, providing a better return when compared to the deposit interest rates on offer in the country. This product is sold by 20 banks nationwide. The return will be paid on a monthly basis until the due date of the paper.

A total of USD 68 billion worth of Sukuk was issued worldwide in 2015. Malaysia remains the country with the most issuances, followed by Indonesia. Treasury issuances continue to constitute the majority of the Sukuk offered to the market.

The most important of the national issuances in 2015 was the second issuance worth of USD 1 billion realized by Hong Kong in May 2015. Most of the investors for the issuance were from the Middle East and Southeast Asian countries, and the issue was two times oversubscribed.

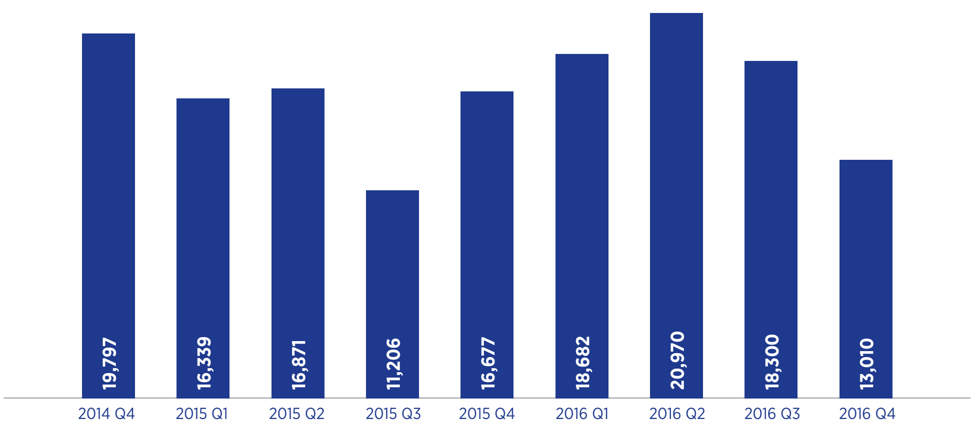
As the Sukuk market grows, so has interest from African issuers and investors. As an interest free financial instrument, Sukuk confirmed its presence as an alternative instrument to mobilize mid-term and long-term savings and investments from a large investor base. The Treasury's recent issuances in Africa will encourage other African governments to diversify their financial instruments through Sukuk by carrying out similar issuances and will help mature the interest free finance system and contribute to the growth of the private sector and to the development of capital markets. The presence of several countries, such as Tunisia, Egypt and Morocco, which are currently preparing legislation for the issuance of Sukuk, is encouraging for the future of the system. At present, the West African and African continent is in a stage in which the necessary funding resources need to expand to close the revenue gap caused by the fall in global commodity prices, and interest free financing could be the solution.

Qatar, representing 60% of the treasury Sukuk issuances in the GCC member states since 2010, remains the most active long-term Sukuk issuer in the region. The main reason for the rapid growth seen in the Sukuk issuances in the first half of 2016 were the issuances performed in order to finance budget deficits, by those of Kuwait, Bahrain and Oman. In the first half of 2016, 50% of global Sukuk issuances were composed of treasury exports; long-term normal Sukuk issuances continue in Southeast Asia, where Malaysia and Indonesia rank first, and Southeast Asia remains the region with the highest number of Treasury issuances.

Looking to 2016...

According to figures published by Fitch, the volume of Sukuk issuances in core markets increased by 26% in 2016. This pick-up in growth is expected to continue in 2017 with the entry of new issuer countries into the market and increasing volumes in 2017.

Sukuk Issuances (USD million)



Source: Bloomberg

The same figures show that Sukuk issuances by Malaysia, Indonesia, Pakistan and Turkey rose from USD 32 billion in 2015 to USD 40 billion in 2016.

The share of Sukuk issuances in total issuances of debt securities in these markets virtually maintained their market share, at 28.5% in 2016 compared to the 29% in 2015.

Better utilization of the current potential offered by the interest free financing system would boost the rate of growth.

Asset growth alone is not enough when it comes to assessing the system's development. Emphasizing the system's profitability, raising its recognition, increasing the know-how to a higher level through research and training activities, widening applications through legal regulation and corporate governance and pointing out the need to take further steps in the field of corporate social responsibility is extremely important in terms of seeing the big picture clearly.

As one of the fastest growing areas of the global financial system, it is observed that the interest free finance system has been performing short of its real potential in terms of the asset and geographical spread. There are many pre-conditions for ensuring

The global sustainability agenda places emphasis on the interest free finance system in terms of its critical role in supporting development.

sustainable growth in the system. The issues that stand out in this context can be summarized as follows:

First of all, the lack of technical and application standards is one of the most important issues preventing the development of the system. On the other hand, discrepancies on the part of the legislative regulation and the lack of qualified human resources are also key issues. Also, the low penetration rates outside traditional markets, one of the major problems, is explained by the lack of development of the awareness about the system and the limited recognition of interest free financial products and services.

The new global sustainability agenda highlights the importance of the interest free finance system.

The final global financial crisis clearly demonstrates that there is a need for alternative and complementary financing mechanisms that can provide an innovative alternative to the conventional finance system. This search clearly points to an interest free finance system.

On the other hand, the new global sustainability agenda places an emphasis on the interest free finance system in terms of its critical role in supporting development. The fact that the principles of interest free finance offer a just and fair socio-economic system and include a strong commitment to the welfare of the society will play an important role in this development.

It is calculated that the interest free finance system will reach a volume of USD 3.5 trillion in 2021 with an average growth rate of 12% per annum. The interest free banking sector is expected to continue leading this growth with the sector's total assets reaching USD 2.8 trillion by 2021, increasing its share from 73% in 2015 to 80% in 2016. The breakdown of other interest free financial assets is estimated to be 12% for Sukuk, 2% for Takaful, 4% for other interest free financial institutions and 3% for interest free funds.

The greatest contribution to the growth is projected to come from high performing countries of the interest free financial system, primarily members of the GCC.

The coming period presents significant opportunities for the interest free finance system

Providing the legal infrastructure to support development, increasing the level of training and qualified human resources in this field with an awareness of participation banking and following up trends in global interest free finance markets by uniting with the efforts of sector participants under the leadership of the PBAT will be important driving forces in terms of taking advantage of opportunities and potential.

Pension funds compatible with the interest free finance system are a new product area with strong driving forces in terms of demographics.
In the Islamic world, there has been a strong increase in demand from a large and widespread mass including middle-income savers and working professionals for retirement plans that are compatible with the interest free finance system.

The Malaysian Pension Fund implemented the world's largest Interest Free Finance Savings Plan at USD 25 billion. Indonesia continues to work on pension funds compatible with the interest free finance system, which will meet the increasing demand of an aging population with a population mass over the age of 60 that will triple by 2050. Indonesia recently allowed the establishment of interest free pension funds and for insurance and asset management companies to market system-compatible pension schemes and convert their existing funds into system-compatible forms.

Also in the UAE, the development of pension schemes compliant with the interest free finance system has been encouraged.

In Turkey, in addition to the personal and accident insurance activities, which are carried out under the name of participation insurance, the funds collected from the participants within the scope of the Individual Pension System are held in pension investment funds, which are used in investment instruments approved in terms of their compatibility with interest free finance principles. New developments are expected in this area in the coming period, reflecting global trends.

Infrastructure Sukuk could potentially be a guiding force in development efforts.
In the global interest free financial markets, infrastructure financing is needed in order to meet the funding needs of a large number of public infrastructure projects.

Public-private sector partnerships provide funding for public infrastructure projects both between local private sector companies and governments and between foreign private sector companies and local governments.

Sukuk will play a leading role in meeting USD 1 trillion of foreign financing needs which will be needed by Iran for investments that will be undertaken within the scope of the infrastructure development program over the next decade. On the other hand, it is inevitable that the investments Saudi Arabia will undertake under the Vision 2030 reform plan will bring new opportunities in terms of interest free banking and Sukuk.

Sukuk attracts attention as one of the most important instruments in terms of providing funding for the investments required to be implemented in order to eliminate the lack of infrastructure in the developing interest free financial markets such as the African continent. Many North African countries continue to work on developing legislative regulations for Sukuk issuance. On the other hand, the UK, which has entered the process of moving away from the EU, will apply to Sukuk, especially in financing infrastructure and renovation investments.

In Turkey, TL 45 billion of certificates were issued within the 7 years following the establishment of the Sukuk market. Sukuk assets continue to grow with increasing momentum. The Sukuk financing method for large scale infrastructure investments such as Istanbul's 3rd Airport and the planned Kanal Istanbul project will provide a very important expansion opportunity.

Use of development opportunities in mobile banking and payment systems to increase access to interest free financial services
Banks around the world are carrying out work aimed at the development of mobile banking and payment systems that use state-of-the art technology in order to effectively transfer funds to economic ventures from investors, promote risk sharing and support cross-border investments.

For the participation banks operating in emerging interest free financial markets, there are opportunities to create internet-based banking platforms compatible with the interest free finance system similar to that of the Investment Account Platform (IAP) of six interest free banks in Malaysia. These opportunities should be assessed on an increasing scale; interest free banks should take accelerated steps to catch up with traditional banks, especially on the issue of mobile technology.

In recent years, the strong steps taken by participation banks in technological competence and next generation technology and mobile applications in Turkey provide the sector with a significant competitive advantage in this field.

Interest free asset management presents a strong development area.
Interest free asset management services addressing highly affluent individuals and retail investors offer a profitable but relatively undiscovered growth opportunity among interest free financial markets.

Leading interest free financial markets such as Malaysia highlight interest free asset management as a new growth area.

As one of the most important focuses of development for interest free banking, more penetration should be achieved in the financing of SMEs.
To help meet the business capital requirements and asset financing of SMEs in the member markets of the Organization of Islamic Cooperation (OIC), it is crucial that they gain better access to financing. This sector has not yet been adequately penetrated by interest free banks.

If interest free banks focus on offering retail products to low-income customers and more corporate and sophisticated banking services to high-income customers, this would step up the offering of these services to a more widespread audience more rapidly.

Looking at Turkey, within the framework of the Tenth Development Plan, the Ministry of Development determined the SME strategy to increase support for SMEs and prepared an action plan. Participation banks are expanding their opportunities for SMEs that are the driving force of the economy, for which they offer uninterrupted financial support as their natural customer base. The banks fulfil their duty most effectively in strengthening the real sector.

Supporting the low-income rural population through agricultural finance is important in terms of interest free finance goals and principles.
One important step forward has been the offering of interest free financing products and services for the financing of agricultural enterprises owned by a low-income rural population, who have not benefited greatly from banking services.

Within the framework of applications to be developed to help the rural population benefit more from the banking services, food security can be enhanced by rural population's access to funding through partnership-based contracts and providing agricultural financing, especially through Salam-based contracts.

The interest free finance system for social financing and sustainable development represents an important anchor.
With the adoption of the UN's Sustainable Development Goals, the supportive role of interest free finance to achieve social finance targets has drawn considerable attention as part of the feasible solutions.

In September 2015, the United Nations General Assembly adopted 17 Sustainable Development Goals (SDG) on five bases such as humanity, the planet, welfare, peace and partnership.

For the SDG practices targeted to achieve success by 2030, meeting the need for financing, amounting to USD 5-7 trillion annually according to research studies, will require an unprecedented and ambitious mobilization of resources. Developing countries are also expected to face an annual investment deficit of USD 2.5 trillion in areas such as infrastructure, clean energy, water, health and agriculture.

All of these investment processes bring with them the need for new financial instruments in addition to the traditional financing methods. The importance attached to activities that encourage development and are socially inclusive highlights that interest free financing, especially Sukuk, as a perfect solution to achieve these goals.

Participation banking attracts attention in the world and increasingly in Turkey thanks to the support it extends to the real sector with its innovative instruments and the opportunities it offers in terms of sustainable economic activities, which are better grasped in the global crisis period, and it continues its rise. It is hoped that the sector's development initiatives will also be supported by the state and that the potential in this area is taken advantage of.

Providing the legal infrastructure to support development, increasing the level of training and qualified human resources in this field with awareness of participation banking and following up trends in global interest free finance markets by uniting with the efforts of sector participants under the leadership of the Participation Banks Association of Turkey (PBAT) will be important driving forces when it comes to taking advantage of the opportunities and potential.

Participation banking is one of the most important pillars of the Istanbul Finance Centre (IFC) project. As a country located near the Gulf, it is foreseen that funds to be brought to Turkey and new investors from this region will provide important contributions to make Turkey a hub in the field of interest free finance. In this context, efforts should be redoubled to deepen the interest free capital market and support its development, diversification and spread of interest free finance instruments, especially new capital market instruments.

Source:
Thomson Reuters - State of the Global Islamic Economy Report 2016-17
ICD Thomson Reuters Interest Free Finance Development Report - 2016
PBAT

"Participation banking is a golden opportunity for growth"

Developed countries failed to achieve a permanent growth trend, while emerging countries bore the brunt of the global uncertainty. At the same time, 2016 was a year of stagnation in global trade.

Osman AKYÜZ
General Secretary of PBAT

The developments of 2016 could have a profound effect on the period going forward.

In 2016, global economic growth and trade volume fell short of the expected levels. How would you interpret this situation?
The year 2016 was a period of many developments that may have a profound effect on future processes.

It was observed that developed countries were unable to enter a permanent growth path, while emerging markets bore the brunt of the global uncertainties. At the same time, 2016 was a year of stagnation in global trade volumes.

While Britain's decision to leave the EU (Brexit) and the surprising result of the US presidential elections resonated worldwide, geopolitical developments originating from the Middle East, the upward trend in oil prices, the Federal Reserve's (Fed) interest rate hikes and expectations for 2017 and the overvaluation of the US dollar, especially against emerging market currencies, were all hot topics on the agenda.

Despite a relative recovery, the growth in developed countries was failed to gain the sustained upward momentum, while the EU and Japan continued to implement a loose monetary policy to stimulate economic activity. In the first half of 2016, the UK's potential decision to leave the EU raised concerns over the global economy and the future of the EU. On the other hand, the fact that the rate of growth in the EU exceeded that of the US, albeit slightly, for the first time since the outbreak of the global crisis in 2008, can be considered a surprising result. It should not be underestimated that the ongoing low inflation-weak demand cycle in the EU economies continues to pose a reflationary threat, despite the observed activity in growth.

Also in 2016, the uncertainties regarding global monetary policies led to the continuity of volatility in financial markets and had an adverse effect on the prices of financial assets and risk premium in developing countries.

Trump, who advocated conservative and interventionist economic policies throughout the campaign period, was elected as the new US President, indicating a change in the global political climate and deepening uncertainty.

In parallel with the strengthening economic growth in the US, the Fed raised its policy rate by 0.25 percentage points in its final meeting of 2016. Additionally, the Fed clearly signaled that it may raise interest rates three times instead of two in 2017 in view of the positive developments in the economy. These further accelerated the appreciation of the US dollar against other currencies.

Many factors, such as the rising trend in oil and commodity prices and the negative impacts that this trend may have on inflation and the current account deficit of energy importing developing countries, the policies that the US will pursue, the elections in the Eurozone and weaknesses of the Chinese economy indicate that 2017 will also be a challenging year.

How would you evaluate the economic and political developments experienced in Turkey in 2016?
The Turkish economy was exposed to the pressure caused by a number of factors in 2016. In addition to the pressures created by the climate of weak and fragile growth and political developments that continue on a global scale, our country was significantly affected by the increasing geopolitical risks in Syria and Iraq, domestic political developments, the coup attempt on July 15 and the terror attacks, that we strongly condemn.

In the first half of 2016, the Turkish economy, which followed a moderate growth trend driven by domestic consumption, contracted by 1.3% in the third quarter of the year due to the political developments experienced in the country and increased geopolitical risks. During this period, the government took a number of measures and actions in the nature of reform to boost the economy, relax the real sector and alleviate pressure on the Turkish Lira. Having survived this challenging period and recovered in a short space of time thanks to Turkey's strong financial system and dynamics, our country returned to a path of renewed growth in the last quarter of the year and exceeded expectations with 3.5% growth and closed the whole year with 2.9% growth.

Following the presidential election in the US, the exit of funds triggered by the appreciation of the US dollar caused significant falls in the currencies of developing countries. The Turkish Lira was affected more than similar currencies due to the rise in risk perception in this period, and the Turkish Lira's rapid fall also pushed up the year-end rate of inflation. In this process, the CBRT increased the policy rate and took steps to restrict Turkish Lira liquidity in the market.

In 2016, while the volume of exports remained low, the share of direct investment in the financing of the current account deficit decreased significantly due to the negative developments experienced during the year. On the other hand, with oil prices rising again, the windfall of low oil and commodity prices in 2016 has been reversing. A possible increase in tourism receipts on the back of improved relations with Russia and the decrease in geopolitical risks and stronger boost in exports to the EU will prove important developments in terms of our current account deficit in the coming period.

The Turkish economy is based on solid foundations and has successfully survived many crises on a global scale, proving itself in this sense. We believe that the growth momentum of the Turkish economy will be renewed through the increase in production and efficiency, balancing of demand composition mainly as investments and exports, and structurally resolving our fragile points, inflation and the current account deficit problems, in 2017 and beyond.

Participation banking is moving forward as a safe, sound and sustainable system. As a professional who has witnessed every stage of the sector in its 32 year history, how do you view see this process?
The foundations of interest free banking, which we call participation banking, were laid in 1985 in our country and the first members of the sector were called private financial institutions.

As a banker who participated in the initial phase of the system, I believe that it is necessary to take a retrospective view of what happened in the 32 years extending from the first private financial institutions to today's participation banks in order to understand the value of today's gains and the potential that the future offers.

Turkey needed significant funding to overcome the economic difficulties experienced immediately after the 1980 coup d'état and to finance the economic growth. At that time when oil prices in global markets increased, it was known that there was a considerable capital surplus, especially in the Middle East. The government at the time was aware that attracting Middle Eastern capital to Turkey would require the establishment of private financial institutions. In this vein, it was necessary to restructure Turkey's financial system to create an appropriate structure and carry out the necessary legal arrangements. Thus, Middle East funds would flow to Turkey and the needs of the state, public, the businessman, the entrepreneur and the intellectuals would be met quickly.

In these years, the demands of businessmen and intellectual circles of Turkey to establish interest free banking and finance institutions became clearer. Some entrepreneurs took

The foundations of interest free banking, which we refer to as participation banking, were laid in our country back in 1985 and the first members of the sector were called Private Financial Institutions.

control of the private financial institutions project, which would provide significant expansion and depth to the Turkish banking sector. Following the establishment of the necessary legislation and the support of the authority, the first private financial institutions began to provide services in the Turkish financial market with foreign partnerships established and the foundations of interest free banking were laid.

What are your thoughts about the transition from private financial institutions to participation banks?
This system recognized as Islamic Banking was referred to a system of private financial institutions in the 1990s due to the prevailing political views and secularism in Turkey. However, as in developed economies, this financial understanding, which functions freely along with the principles of the secular state and is shaped according to Islamic philosophy, had to be brought together in the economic structure of our country.

The name of the private financial institutions we used in the first period did not relate to and did not associate with the work we had done. It required a lengthy and challenging process to have reached the market position that the first private financial institutions were entitled to.

How has the legislation of private financial institutions been prepared and the integration process developed?
In order to answer this question, it would be useful to go a little further back and examine what happened during the establishment stage and the difficulties that were encountered.

In Turkey, private financial institutions were established with a government decision, and their working procedures were determined with the Treasury communiqué.

At that time, attempts were made to resolve the banking legislation by decrees and regulations concerning private financial institutions. However, in the first stage,

In the first years of private financial institutions, the struggle to gain recognition was an uphill struggle.

these institutions were not covered by the Banking Law. Later though, the CBRT issued a communiqué to determine the details of the regulations.

The first two private financial institutions started operating in 1985 having obtaining a license from the CBRT. One of these was the Faisal Finance Institution, which was the precursor to today's Türkiye Finans, and the other was Albaraka Türk. These two private financial institutions were established in partnership with domestic entrepreneurs with foreign capital.

In the years when operations began, there was no mechanism to set an example or a past record of performance, so the first private financial institutions implemented the system through trial and error. The value proposition of private financial institutions offered to citizens could be summarized by the sentence; "You will deposit your money in our institution and you will be a partner in both profit and loss, and you will entrust it to the financial institution for a certain period." This new concept introduced to a market that is accustomed to conventional banking services proved an unfamiliar one for customers, indicating a challenging struggle for private financial institutions to gain recognition in the initial years. It required time and labor intensive effort to implement participation banking.

In the first years, private financial institutions explained and marketed the model of interest free banking to customers from different parts of society in Turkey. Since the collected funds could not be managed with interest rates, we had to create our own procedures and implement them. How we exploit money according to interest free banking principles, how we trade the goods and how we take actions regarding partnering with the business owner or the enterprise and the financing of the investments were the topics on which we all worked so hard in this initial period. The efforts undertaken by private financial institutions brought real life to intersect with commercial life in real terms in Turkey. This laid the foundations of an innovative and realistic mechanism to overcome the need for funding.

What would you like to say about Turkey's macroeconomic conditions in the period when private financial institutions entered the system?

While private financial institutions joined the economic and financial cycle in the mid-1980s, our country's economy lived in the grip of high inflation. The annual rate of inflation, which had stood at around 60%, has been the most fundamental problem of the Turkish economy for nearly 30 years.

Institutions did not have the means to undertake long-term financing, because the funds that were entrusted to private financial institutions were short-term in high inflationary conditions. The funds were transferred mainly to the short-term trade financing.

Over the course of time, in Turkey, financing models aimed at providing goods and services have been developed in accordance with the principles of participation banking, mechanisms have been designed in accordance with the needs, and the account and balance sheet structures specific to private financial institutions have been introduced by carrying out sub-regulations.

While the presence of private financial institutions came under scrutiny during the events of February 28, our institutions were criticized for not integrating into the system.

In the period that followed, Turkey underwent the economic depression of 2001 and many conventional banks were left out of the system. In this process, the authority tackled the banking sector thoroughly and work to ensure a capital structure and transparency in accordance with international criteria was implemented in a multifaceted way.

In line with the developments experienced in our country and the demands from the market, the legislative amendments aimed at private financial institutions were amended at the beginning of the 2000s.

Private financial institutions operating in Turkey brought the request of a name change to the agenda. Our sector, which had difficulty in explaining its position in international markets as well as to its customers when referred to as ‘private financial institutions’, demanded that the word “participation” be added to the word “banking”, which is a universal word.

An important issue to be emphasized here is that choosing the word ‘participation’ is not a coincidence or an arbitrary choice. The word ‘participation’ was chosen because it is an expression of Islam’s perspective of banking and it is a statement of participating in profit and loss, and it forms the foundation of all our activities.

Proposals for a restructuring of participation banking were first conveyed to the BRSA and then to the Turkish Grand National Assembly. While the Banking Law was restructured in 2005, participation banking was included in the new law and the name change was made.

In the new Banking Law, participation banks were included as a bank type, and the procedures by which the participation banks collect money and disburse funds was covered in the law as a mandatory provision.

Finally, based on the simple fact that private financial institutions also provide banking services, “participation banking” has taken its place in every aspect of regulatory law and legislation. As a result of this process, the participation banks operating in Turkey were able to compete and carry out their activities under the same conditions as the conventional banks.

Participation banks are financial service providers operating on the same lines as conventional banks, but operating on different principles and having the same legal status. Is that true?
That’s absolutely right. We can clarify this. Today, participation banks produce and offer all similar banking services in the same legal framework as deposit banks. The main difference between participation banks and conventional banks is that participation banks act in accordance with interest free principles at the point of collecting funds from the citizen and the disbursement of resources to finance the economy.

What kind of duties can participation banks undertake in the field of long-term investments, especially public infrastructure investments?
Participation banking generated a fund volume in the range of USD 40 billion according to 2016 figures. Participation banks need to be able to transfer these funds to long-term investments, particularly infrastructure investments. Our banks are still partially supporting long-term investments.

We believe this process will gain pace and the share of participation banks in long-term investments, especially infrastructure investments, will increase.

A working group was established with the Islamic Development Bank to deal with this matter. The involvement of the participation banking sector in the financing of some large-scale public investments is an important issue on our agenda.

We are giving special consideration to the option of participating in financing through the issuance of Sukuk (lease certificates). In this project, which we envisage as a consortium, the Islamic Development Bank has confirmed its desire to enter a business alliance with us.

Our prediction is that the participation banks, which had allocated more resources to the financing of short-term investments in the past, will allocate resources to long-term investments.

It is said that it has become easier for participation banks to meet their liquidity needs than it was in previous periods. Would you share your thoughts on this?
Liquidity becomes very important in periods of financial contraction, such as what has been experienced in the markets from time to time. It would be correct to claim that the biggest handicap facing financial institutions is liquidity management.

When a citizen wants to have funds that they entrusted to you back, you have to prepare the relevant amount to return to the customer. For this reason, all players in the banking sector need to be very sensitive to the issue of liquidity.

In order to solve the liquidity issue, the instruments of the players who provided services in the field of participation banking were extremely limited in the initial years. In this context, they were having trouble with their products.

Current legislation has since been brought in to overcome this situation. The CBRT now provides instant financing to meet the needs

Participation banks operating in our country are working in a niche market. Those who accept the principle of interest free finance or those who do not accept interest due to their faith choose participation banks.

of the participation banks by purchasing the securities in their possession. In addition, the Treasury issues Turkish Lira based Sukuk (lease certificate) at least twice a year. These issuances allow participation banks to obtain liquidity when they are in need. In summary, the liquidity management of participation banks can today be made on the same terms as conventional banks.

What is your view about the share of participation banks in the Turkish banking sector?
The participation banks operating in our country are working in a niche market. Those who accept the principle of interest free finance or those who do not accept interest due to their faith choose participation banks.

We need to develop this niche market. It is a primary objective that participation banks provide quality and effective service. Quality and effectiveness have a significant bearing on the customer’s preference, and a customer who finds the bank’s performance inadequate may withdraw their money and invest it in real estate or gold.

As a result, participation banks are able to compete and have to provide a return mechanism that is not eroded by inflation.

Capital-based growth should be ensured. The number of branches is also very important for participation banks. According the figures for the end of 2016, participation banks had 959 branches having achieved healthy organic growth.

When we consider that there was no participation banking in Turkey 32 years ago, the 5% market share achieved by the end of 2016 represents a significant level and a high degree of success.

Today, we have a complete system with all its principles, legislation and regulations, and within this system, we have five participation banks. Our members own fully authorized

With the committees that they have formed and activities they have carried out, the PBAT is rapidly continuing its work on the development of the sector and to raise awareness of participation banking among the general public.

bank licenses and offer interest free banking services. Additionally, they are in the position of being integrated with the world and demonstrate a presence in international markets.

The success story that we have achieved in Turkey inspires foreign markets today and is followed as the best example. For example, in Morocco, the definition of the participation bank was taken from Turkey.

Participation banking needs to increase the depth, breadth and effectiveness of our industry. Turkey needs participation banking and this need will increase rapidly.

The PBAT has been conducting many activities aimed at promoting the development of the sector. What would you like to say in this regard?
With the committees they have been formed and the activities they have carried out, the PBAT is rapidly continuing its work on the development of the sector and to raise awareness of participation banking in society and public opinion.

We are continuing our joint efforts to design and develop products with our member banks in our committees. We are closely following the products that we do not yet have but are available throughout the world and we are carrying out efforts to productize and adapt.

Our activities within the scope of the 2025 Turkey Participation Banks Strategy Document are continuing intensely. Working in partnership with the public authority, we have advanced our objectives for participation banking to a new dimension with the Istanbul Finance Centre (IFC) project. The development of interest free finance has been added to the agenda as a sub-component of the project, which consists of 7 components and aims to transform Istanbul into an international financial center. These activities are followed by the PBAT.

Meanwhile, the Interest Free Financing Coordination Board, established by the Government in 2015, continues to operate. The Board convenes every three months to monitor developments in the sector, identify needs and focus on resolving issues. As the PBAT, we are present on the Board, which is managed at the level of Deputy Prime Minister. The CBRT, the Undersecretariat of the Treasury, the BRSA, the CMB and the BIST are also represented on the Board. In summary, public institutions and organizations are going to as much effort as the private sector to solve the problems of interest free banking and to promote its development in Turkey. This ownership is an important opportunity for us and should be carefully assessed.

Another initiative recently launched by our Association is aimed at measuring perceptions towards the participation banking sector and its reputation. Upon completion of the project, which is carried out in cooperation with a professional survey company, a significant number of surveys and the results of extensive interviews will be analyzed, and these will offer us important findings about the perception and reputation of participation banking in the eyes of our stakeholders.

What are your expectations for the future?
After the 2008 financial crisis in particular, interest free banking started to be perceived as a rising source of value all over the world. The global interest free finance system, which has displayed strong growth under the leadership of interest free banking, stably continues to widen its reach together with all its institutions.

The increasing acceptance of Sukuk as a financial instrument, the development that interest free funds and Takaful have displayed are important success indicators of a deepening in the system.

The participation banks operating in Turkey are taking steps to spread and deepen in parallel with these developments. While our country stands out as one of the fastest growing interest free financial markets, the country currently commands a share of around 5% in global interest free financial assets.

We believe this development will gain pace going forward, and as it does so, our share will increase as well. The contribution of public authorities on this path and the efforts of our Association are continuing with a focus on improving the performance of the sector. With the unwavering support it provides to the real sector, the unquestionable role which the participation banking has undertaken as one of the fundamental mechanisms of the development of industry and the economy is also an obvious sign of the development that participation banking will demonstrate in the future.

One of our objectives is that the sector becomes able to offer world-class financial products and services. On the other hand, opening branches in locations where private sector participation banks cannot go, through the public participation banks, is important in creating a more extensive service network and providing more serious contributions to the development of the sector.

We know that there is a significant level of interest from Gulf capital in the Turkish participation banking sector. In this respect, the International Participation Banking Summit, which we will organize together with MUSIAD (Independent Industrialists' and Businessmen's Association) in November 2017 as the PBAT, as an important channel to promote our sector and our country internationally and to share the knowledge of global experts, and we are continuing our preparations accordingly.

As a final word, we can describe participation banking as a golden opportunity for the sustainable growth of the Turkish economy.

WE ARE REVEALING THE POTENTIAL OF PARTICIPATION BANKING, **WE ARE STRENGTHENING TURKEY WITH PARTICIPATION BANKING.**

- We maintain the core values of participation banking and guide the accuracy of the products and practices.
- We develop participation banking and encourage new interest free finance products and practices at world standards.
- We are the voice and representative of the sector and Turkey in the national and international arena with the policies that are in accordance with the principles and objectives of the participation banking.
- We adopt the principle of transparency in all of our activities that we carry out for our entrepreneurs, our stakeholders and our members.
- We proceed with determination and responsibility to achieve measurable results of the tasks that we undertake as a sector.
- We provide solutions to the functioning of participation banking and the needs and the expectations of the members, customers and social stakeholders.
- We are strengthening our national, regional and international collaborations for the development and strengthening of participation banking, and ensuring that good practices are implemented.
- We follow new regulations in the interest free finance sector and we relate them to real life.
- We develop participation banking products and service standards and we oversee their compliance with international standards.
- As well as supporting the real economy, we also support national development with our employees who have common values, are sensitive to their national values and demonstrate devotion.
- We advance our values further, strengthening Turkey with participation banking.

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TKBB PARTICIPATION BANKS ASSOCIATION OF TURKEY

Workshop on Innovative Product Development at Islamic banks

The Workshop on Innovative Product Development at Islamic Banks was held in cooperation with the World Bank, the BRSA and the PBAT.

The Workshop on Innovative Product Development at Islamic Banks was held in cooperation with the World Bank, the Banking Regulation and Supervision Agency (BRSA) and the Participation Banks Association of Turkey (PBAT). The workshop was held at the Mercure Istanbul Altunizade Hotel on 2-3 March.

The workshop covered recent developments and current situation in the context of the foundations of Islamic finance, contract types and all product components. Opening speeches were given by Zamir Iqbal, the Head of the World Bank Islamic Finance Development Center and Osman Akyüz, the Secretary General of the PBAT. The first session of the workshop started with a presentation by Zamir Iqbal, which covered Fundamental Principles and Components of the Financial System, Latest Developments in Islamic Financial Services Sector and the Current Situation, How Islamic Banks

"In the field of Islamic banking, the subject that comes up the most, and comes under most criticism, is the issue of scarcity and the lack of product diversity. This is due to both the inadequacy of such workshops and the fact that there is not enough co-operation and solidarity between the world's Islamic financial institutions, as well as the unique features of the countries. For example, in Turkey, participation banks tend to concentrate on the Murabaha, because the maturities of the funds in these banks are very short. Therefore, participation banks have to direct the resources they collect to short-term financing instruments; thus, they do not feel the need to conduct research on medium and long-term financing products. In particular, lease certificates, which are long-term financing instruments, started to be issued thanks to the legislative amendments pushed through after 2010, and issuances of this product has currently reached a volume of TL 42 billion. With the other types of Sukuk, apart from lease certificate, it is expected that new types of capital market instruments, micro finance, Islamic insurance, namely Takaful, and long-term financing types such as Ijara and Musharaka will be included in the product range and gradually become more widespread."

Osman Akyüz
The PBAT Secretary General

In Turkey, Sukuk issuances amounted to a volume of TL 42 billion.

differ from Conventional Banks and Typical Balance Sheets of Islamic Banks. In the second session, Assoc. Prof. Dr. İshak Emin Aktepe from Türkiye Finans Participation Bank talked about Participation Funds (such as Participation Accounts, Current Accounts), Financing (such as Monetization Products, Vehicle and Home Financing), Types of Financing (Murabaha, Proxy and Musharaka Transactions, Letters of Credit based on Bills and Guaranties), Treasury Transactions (such as Forex, Monetary Markets, Securities, Derivatives), Commercial Contracts, Profit Sharing Contracts, Supporting Contracts and Different Features of Contracts. The third speaker, Michael McMillen, one of the Curtis partners, talked about the topics under the title of "Legal and Regulatory Framework", such as the Islamic Financial Services Industry's Legislation Environment and Present-day Regulatory Organizations for the Islamic Financial Services Industry.

In the final session of the first day, Prof. Dr. Habib Ahmed from Durham University offered explanations on "The Application of Banking and Finance Contracts".

Four sessions were held on the second day of the workshop. Dr. Shaher Abbas from Islamic Finance Advisory and Assurance Services (IFAAS) gave a talk on "Financial Engineering in the Field of Islamic Finance", Dr. Zamir Iqbal who is the Head of the World Bank Islamic Finance Development Center talked on "Corporate Governance Framework", Prof. Habib Ahmed from Durham University gave a talk on "Islamic Law Governance Framework". The Malaysia and Turkey based models were discussed in the "Country Case Studies" panel session under the moderation of Ahmet Şuayip Gündoğdu from the International Islamic Trade Finance Corporation (ITFC), and there were talks from Muhammad Syahmi Bin Mohd Karim from the Islamic Research and Training Institute (IRTI) and Mustafa Dereci, the Head of Retail Marketing and Product Development from Kuveyt Türk Participation Bank.

"Islamic finance is not an application specific only to Islamic countries. Islamic finance now has a global area of application. Many people may not be aware of it, but there is an Islamic finance practice in the US, Canada and the UK. This shows that Islamic finance has become a global practice. At the same time, this area has become well known and is on the G20's agenda."

Zamir İqbal
Head of the World Bank Islamic Finance Development Center

The standard that strengthens gold as an investment instrument was published

The standards established to ensure the gold trade is in accordance with Islamic rules will transform gold into a more effective and popular investment instrument.

A seminar titled “Gold in Islamic Finance” was held at the Grand Hyatt Hotel in Istanbul on February 21, hosted by the Central Bank of Turkey, attended by the Participation Banks Association of Turkey and the World Gold Council.

Important names such as Mr. Hamed Merah, the General Secretary of AAOIFI (The Accounting and Auditing Organization for Islamic Financial Institutions), and Ms. Kurtuluş Taşkale Diamondopulos, the World Gold Council Director, were announced as panelists. Mr. Erkan Kilimci, Vice President of the Central Bank of Turkey, Dr. İsmail Halitoğlu, Kuveyt Türk Supervision and Inspection Manager and Ms. Seda Yılmaz, Kuveyt Türk Retail Marketing Manager took part in the seminar.

After the workshop held with the experts from the PBAT and participation banks, a visit to Bahrain was carried out and information on the application of gold trading in Turkey was conveyed to the AAOIFI boards. Later, the AAOIFI published the Gold Standard. This time, under the leadership of the CBRT, representatives of the World Gold Council and the participation bankers under the umbrella of the PBAT were able to negotiate the standard published by the AAOIFI. The “gold standard” in Turkish was also shared with the participants by the Central Bank.

Standards for carrying out gold trade introduced in Turkey.

The World Gold Council set out the standards, on which it has been working a considerable period of time, for carrying gold trading in accordance with Islamic rules in this framework. Gold continues to be used as an instrument of exchange and value, as it has for the last 7,000 years. The search continues for more effective ways to use this trading instrument, which has such an ancient history, in today’s economic system. The director of the World Gold Council, Ms. Kurtuluş Taşkale Diamondopoulos, who came to Turkey to explain the results of this search said “We are working to ensure that the gold market is the most liquid and effective, and that its customers act most actively” as she announced that the World Gold Council had set new standards so gold could be traded as investment instrument without doubts over compliance with the principles of Islam. Well, what will these standards

Since Islamic standards have not yet been established, interest in gold investments in the Middle East has not reached the desired level.

provide? Ms. Taşkale Diamondopoulos says that demand for Islamic finance has increased greatly and it is very important that gold is used as a halal commodity. The lack of Islamic standards to use gold as an investment instrument, even though gold conforms to Islamic standards as a currency was influential in the World Gold Council's decision to carry out this work. Another reason for this study is that the demand for gold is shifting towards Asia. As Islamic standards have only recently been established, the Middle East's interest in gold investment has always been low. The fact that gold is a safe harbor and is of very low risk and only has a 4% presence in portfolios which comply with Islamic standards explains this apathy. For this reason, ensuring that the gold trade complies with Islamic rules increases the expectation that this commodity will be used effectively as an investment instrument.

In Turkey, the Central Bank supports investment in gold.

Turkey offers a natural environment for gold to be used as an investment instrument. Indeed, gold is of historical and traditional importance in Turkey. Erkan Kilimci, the Vice President of the Central Bank of the Republic of Turkey, emphasized this when he said, "traditions in Turkey spontaneously create demand for gold." He is basing this statement on the fact that the gold is used extensively in our traditions and that there is therefore natural demand for gold. A similar case is also seen in India. Demand for gold is increasing naturally in the wedding season in summer months. This is just one of the reasons supporting the shift in demand for gold to Asia. About 43% of the gold produced in the world is used for jewelry, 15% for gold coins, 37% in electronics and 5% in dentistry. This numerically explains the interest in jewelry.

When we return to the Turkish market, it is seen that households hold a substantial amount of gold in view of the Turkey's imports and exports of gold until now. Mr. Kilimci has said that when the Central Bank has been permitted to keep certain required reserves in gold, they have ensured the collection of this domestic gold and that the gold, which was brought into the financial system, can then be exchanged with the other instruments with a higher return on that day. Organizing 'gold days' where banks collect gold is also an effective way of bringing what has been referred to as 'gold under the mattress' into the system. Seda Yılmaz, the Retail Marketing Manager of Kuveyt Türk, which expended a great deal of effort to get this gold into the system, says that the bank places gold in ATMs so customers can buy gold easily and also so they can easily set up gold accounts in each branch. They are able to use these accounts actively and uninterruptedly. Ms. Yılmaz also emphasizes that they hold gold physically in accordance with the Islamic rules.

There has to be a physical equivalent of gold

The most important issue about gold is that it can be physically met. The President of Amenie Group, Daud Bakar, cited that the main rule of the gold trade is that how much is bought has to be given in the same amount. In other words, Mr. Bakar emphasized that gold must be physically provided or its physical transfer is required to have taken place. He adds, "the main difference between gold and money transfer is related to physical exchange. Gold is a physical commodity, and when we have the ability to buy and sell foreign exchange online, it becomes a complicated process when it comes to gold. It is because the physical transport of gold is difficult." In other words, according to what Mr. Bakar said, there most certainly has to be a physical equivalent of gold within the framework of Islamic rules.

On the other hand, Mr. Bakar also referred to the mixture of gold with other metals and said that the gold ratios in the content of these goods should not fall below 50% in order for them to be considered as gold. All these points that Mr. Bakar mentioned are included in the standards created for gold. These standards, which are prepared to present a golden future to the gold, are consistent with Islamic rules, and therefore, the prediction that an increasing amount will be invested in gold is gaining weight. As Mr. Kilimci, the Vice President of the Central Bank said, there is no credit risk in gold, and it emerges to be one of the safest assets held by a nation.

Gold accounts for around 4% of portfolios, which are managed accordance with Islamic standards.

HOW DOES THE GOLD DAYS SYSTEM WORK?

With the Gold Days project organized by Turkish banks, gold held by households is added to the system.

- Gold jewelry is checked by Istanbul Gold Refinery experts.
- They are deposited into the account as pure gold of 995/1000 gr.
- Customers can deposit the gold in their current accounts or deposit accounts into the Gold Jewelry Participation Account, thus gaining the opportunity to earn a return on their gold.
- Gold accounts are under the guarantee of the Savings Deposit Insurance Fund (TMSF) for real persons up to TL 100,000.

"We are on the way to becoming the world's best participation bank"

Melikşah UTKU
General Manager-Albaraka Türk

As always, as Albaraka Türk, we will continue to stand by our nation with an awareness of our responsibility in communal and social fields.

Albaraka Türk is a bank that is open to development and change. We planned Albaraka Türk's place in the Turkish banking system and in the world banking system and its future about five years ago. We started preparations and undertook investments for this at that time. These transformations and investments would normally come to mind when companies start to suffer, but we started these investments in a period when we had achieved our fastest growth, and we have been continuing. In 2016, we started to reap the rewards of this change project that we started five years ago. We have achieved advanced stages in the processes we have developed for operational excellence. We started to collect the fruits of these projects. I think that we will reap more of the rewards in the coming periods.

In fact, for the financial and banking sectors, 2016 was a time of struggling with difficulties and managing increasing risks. However, in this environment, we demonstrated around 15% growth in funds and credits in 2016. We also invested in the infrastructure needed to better prepare for the future. Our bank's product range was further expanded in 2016, with a whole range of innovative products and services such as haj and umrah financing, dealer financing, termed export financing and Eximbank export credit mediation offered to our customers. The infrastructure investments and product developments realized will positively affect our Bank's efficiency in the coming years.

It should be said that our goal of becoming the world's best participation bank is not an end, but a journey. In this sense, we will continue to invest in the upcoming period.

Our objective in the coming years is, and will remain, "sustainable growth". We aim to grow by 15% in 2017. But, of course, we will not only focus on growth. In particular, we aim to improve our asset quality and realize the moves that will protect and increase our profitability. We will achieve a more advantageous position in risk management by widening the diversity in our loans and fund portfolios.

In particular, we aim to strengthen and deepen our relationship with individual customers. However, we will continue to support SMEs, which are the main driving force of our economy. We will continue to support our SMEs with our products and services in the field of foreign trade, adding value to our economy.

We think technology will be used further in the banking sector in the future. We believe that the growth will not come from opening new branches. Customer needs are changing day by day, and accordingly, new products are emerging. In fact, all sectors and institutions are in the middle of a digitalization process. In banking, the rules of the game are changing. It is possible to see internet, mobile networks in all areas of banking from the digitization of branches to digital banks without branches. In this sense, we will continue to invest in digital technologies. As a matter of fact, in 2016, we carried out serious investments in our digital channels. In 2017 and beyond, we want to digitize all our processes and become "Digital Albaraka".

The core of participation banking is based on the sharing of profits and losses. We want to be able to diversify these types of projects, which are concentrated on construction and are currently financed with our own capital, in terms of content and also in terms of the source of finance. We started such efforts aimed at this purpose in 2016 and will redouble our efforts in this direction in 2017.

In order to realize these goals, Albaraka Türk changed its organization in 2016. All of these changes are the result of a planned change that will reveal our inner energy. We did not do them out of necessity, but as a result of a choice. Rather than working to a model in which people derive power from their position, under our new organizational structure at Albaraka Türk, we have developed a management model in which everybody contributes power and meaning to the position that they hold, whether they are an assistant specialist or a senior manager, including myself.

As always, as Albaraka Türk, we will continue to stand by our nation with an awareness of our responsibility in communal and social fields.

I would like to point out that we will continue to realize the objectives we had set out during 2017 and maintain our qualified contributions to advance our sector further.

Albaraka Türk Katılım Bankası A.Ş.	alBaraka
Establishment Date 1985	1985
Main Shareholders*	Al Baraka Banking Group B.s.c. (56.65%) Islamic Development Bank (7.84%) Publicly Quoted (24,84%) Others (10,67%)
Chairman	Adnan Ahmed Yusuf ABDULMALEK
General Manager	Melikşah UTKU
Headquarters	Saray Mah. Dr. Adnan Büyükdeniz Cad. No: 6 (Bereket Camii Karşısı) 34768 Ümraniye/İstanbul/Turkey
Phone/Fax	+90 0216 666 01 01 / +90 0216 666 16 00
Web Site	www.albaraka.com.tr
SWIFT Code	BTFHTRIS
EFT Code	211
Number of Domestic Branches	212
Number of Branches Abroad	1
Number of Representative Offices Abroad	-
Financial Subsidiaries Abroad	-
Number of Employees	3,796

*The Bank's shareholders with an interest of 5% and above, their shares and the percentage of publicly held shares.

Albaraka Türk Senior Management

Melikşah UTKU
General Manager
Mr. Utku was born in Ankara in 1968. He graduated from Mechanical Engineering Department of Boğaziçi University (İstanbul, 1990). He completed his graduate studies in London School of Economics (1990-1992) and Master's Degree on Economic Development in Marmara University (İstanbul, 1998). In 2004, he served as consultant to General Manager of Albaraka Türk. In 2006-2007, he was Head Economist in Albaraka Türk. In addition, he was an economics columnist for Yeni Şafak newspaper for over 10 years (1995-2009). He later worked as Investor Relations Manager from 2007-2009. He continued as CIO-Assistant General Manager in December 2009 and was appointed as CFO-primarily responsible for Financial Affairs, Budget and Financial Reporting and Corporate Communication Departments. He was a Board Member of Borsa İstanbul from 2013 to 2016. As the General Manager of Albaraka Türk as of October 2016, Mr. Utku continued his duty, as well as the Chairman of the Board of Directors of the Participation Banks Association of Turkey (PBAT).

Turgut SİMİTCİOĞLU
Senior Assistant General Manager
Born in Erzurum in 1961, Mr. Simitcioğlu received his degree from Education Faculty in King Suud University (Saudi Arabia, 1989). He had master degree on Business Administration of Social Sciences Institute at Fatih University. He started his professional career at Albaraka Türk in 1990. Between 1990 and 1995, he served at the Fund Management Department and between 1995 and 2001 served at the Central Branch. Between 2001 and 2003, he became Manager within the Central Branch and then in the Corporate Banking Department. Mr. Simitcioğlu then became Manager of Central Branch in 2003 until 2009. In December 2009, he was appointed as Assistant General Manager primarily responsible for Credit Operations, International Banking Operations, Payment Systems Operations, Risk Follow-Up and Banking Services Operations Departments. As of February 2017, he has been carrying out his duty as the Senior Assistant General Manager and Deputy General Manager.

Mehmet Ali VERÇİN
Senior Assistant General Manager
Mr. Verçin was born in Kurtalan (Siirt) in 1962. He received his degree from the Department of Economics of the Faculty of Political Sciences in Ankara University. He worked for several private companies between 1984 and 1993 as Manager of Exporting Affairs as well as Marketing Manager. He began working as a Specialist in Marketing Projects in Albaraka Türk in 1993. He was promoted as Chief, Second Manager, Assistant Manager and then onto Executive in the Project and Marketing Department (1993-2000) at Albaraka Türk. He became Marketing Manager in 2003 and Assistant General Manager in September 2005. Mr. Verçin was on duty as Assistant General Manager and Deputy General Manager responsible for Marketing, Treasury Marketing and Investment Projects departments. He still serves as Senior Assistant General Manager and Deputy General Manager.

Temel HAZIROĞLU
Assistant General Manager
Mr. Hazıroğlu was born in Trabzon in 1955. He received his degree from the Department of Mathematical Engineering in İstanbul Technical University (1980) and completed his master's degree in Management Department of Social Sciences Institute at İstanbul Sabahattin Zaim University. He worked as Programmer, System Analyst and Assistant Manager of IT for Türkiye Emlak Bankası. He worked as the IT Manager at Albaraka Türk between the years of 1986 and 1991. Between 1992 and 1995, he worked in the trading sector as an independent consultant. In 1996, he was again appointed to Albaraka Türk where he worked as Manager of IT department and Deputy Manager of Human Resources and Administrative Affairs Department. Mr. Hazıroğlu had been Assistant General Manager between 2003 and 2017 primarily responsible for Human Values, Training and Organization, Performance and Career Management and Administrative Services Departments and Construction and Real Estate. Since 2017, he is responsible for Financial Affairs Department, Financial Reporting Department, Strategic Planning Department, and Process Management and Organization Department. In 2017, he was appointed as CFO, responsible for Financial Affairs, Financial Reporting, Strategic Planning and Process Management and Organizational units.

Nihat BOZ
Assistant General Manager
Born in Kars in 1963, Mr. Boz graduated from the Faculty of Law of İstanbul University (1985). After being a self-employed lawyer (1985-1987), he was appointed as lawyer to the Legal Affairs Department at Albaraka Türk in 1987. He later became Assistant Manager and Manager within the same department (1995-1996). Between 2002 and 2009, Mr. Boz was Head Legal Consultant at Albaraka Türk. He had served as Chief Legal Adviser/Assistant General Manager of Albaraka Türk since December 2009.

Nevzat BAYRAKTAR
Assistant General Manager
Nevzat Bayraktar was born in Bayburt in 1969 and graduated from Eskişehir Anadolu University, Faculty of Economics and Administrative Sciences, Department of Business Administration in 1993. Between 1993 and 1994, he studied English at Leeds Metropolitan University in England. After working in Esbank for about a year in Foreign Trade Department in 1995, he started to work as Assistant Specialist in Albaraka Türk Project and Marketing Department

in 1996. In 2003, Mr. Bayraktar continued to work in Albaraka Türk as the second manager in the Central Branch. Between 2010 and 2016, Mr. Bayraktar became the Head of the Central Branch. As of January 2017, he was appointed as Assistant General Manager and he is responsible for Corporate Sales Department, Commercial Sales Department, Retail Sales Department, Regional Dept. & Branches. At the same time, Nevzat Bayraktar has a Certified Public Accountant and Financial Advisory Certificate and Independent Audit Certificate in his portfolio.

Ali TUĞLU
Assistant General Manager
Born in 1969 in İstanbul, Mr. Tuğlu graduated from the Department of Computer Engineering at İstanbul Technical University (1991). Between 1993-1995, he worked as an instructor in Virginia Tech University, USA and he took his master's degree in the field of Computer Science in the same university. In 1995, Mr. Tuğlu began working as a Software Engineer for CGN & Associates Company and two years later, by transferring to Minerva he worked as the Manager of Software Group. Transferred to HP in 1998, for ten years Mr. Tuğlu served as a Senior Consultant, a Senior Project Manager, a Consultancy Regional Manager of Turkey and International Departments. Between 2008 and August 2014, he worked as an Assistant General Manager responsible for Information Technologies at Bank Asya Participation Bank and since October 2014, he was appointed as Assistant General Manager responsible for Albaraka Türk Information Technologies. Mr. Tuğlu has been an Assistant General Manager primarily responsible for Core Banking Applications Development, IT Support and Infrastructure, Customer Channels and Analytical Applications Development, Governance and Strategy of Information Technologies Departments.

Malek Khodr TEMSAH
Assistant General Manager
Mr. Temsah was born in Beirut, Lebanon in 1981. He received his Bachelor of Business Administration from the George Washington University (Washington D.C., 2003). He completed his master's degree in Business Administration from Thunderbird, the Garvin School of International Management (Arizona, 2006). In 2003, Mr. Temsah began his career with Bank of America Business Banking in Washington DC followed by his tenure at the London-based European Islamic Investment Bank between 2007 and 2009. In 2010, he joined the Albaraka Banking Group, Bahrain as Vice President of Treasury where he established & oversaw the Sukuk desk until 2014. Since 2014, Mr. Temsah has been working with Albaraka Türk and is also currently a Member of the Board of Directors for one of Morocco's first Islamic banks where he serves on the Audit and Remuneration Committee. He will be appointed as Assistant General Manager as soon as Banking Regulation and Supervision Agency approves the process and will be responsible for Treasury and Investment Banking Department, Financial Institutions and Investor Relations Department, Investment Projects Department.

Cenk DEMİRÖZ
Assistant General Manager
Mr. Demiröz was born in İstanbul in 1973. He received his B.A. and M.A. degree in Economics from Boğaziçi University (1996 ranking first within 119 Economics Graduates) and Cornell University Department of Economics (2000) respectively. He started his career as a Corporate RM at HSBC Bank in 2000 and served as Department Manager between 2002 and 2010 in Corporate and Commercial Credit Department. In 2010, he joined ING Bank as Co-Head of Commercial and SME Credit & Risk. He returned back to HSBC Bank in November 2010 assuming a Director role responsible from Corporate, Commercial and Financial Institutions Credit Approvals and Counterparty and Market Risk Management. As of February 2017, he joined Albaraka Türk as Assistant General Manager responsible from Corporate, Commercial and Retail Credits.

Süleyman ÇELİK
Assistant General Manager
He was born in Samsun in 1963. He graduated from Marmara University, Faculty of Economics and Administrative Sciences, Public Administration Department. In 1988, he started his working life in the Foreign Operations Department at the Albaraka Türk. Respectively, he worked in the Foreign Operations Department between 1988 and 1996, Fatih Branch between 1996 and 1997, and Ümraniye Branch between 1997 and 2000. Between 2000 and 2011, respectively, he was a manager at Ümraniye Branch, Sultanhamam Branch, Credit Operation Department and Human Resource Department at Türkiye Finans. In 2011, he returned to Albaraka Türk Participation Bank and became a Manager in the Üsküdar Branch. In 2012, he was appointed as a Manager of Human Values Department and continued this duty until 2017. He was appointed as an Assistant General Manager in the month of January 2017 and he is responsible for Human Values Department, Training and Career Management Department, Administrative Affairs Department, and Construction and Real Estate Department.

Deniz AKSU
Assistant General Manager
Deniz Aksu, graduated from Middle East Technical University, Economics, started his banking career as a Corporate Portfolio Manager in Pamuk Bank in 1995. He became Bursa District Manager in Yapı Kredi Leasing Corporation in 1997. After 1998, he continued his career as Corporate and Commercial Sales Head in Citibank and in 2008; he got Senior Branch Manager position in HSBC. Mr. Aksu joined Albaraka Türk family in 2012 and after working as Corporate Marketing Department Head for 5 years, he became Assistant General Manager Responsible for Credit Risk in 2017. Mr. Aksu has 22-year work experience in financial markets is responsible for Credit Intelligence Management, Credit Risk Monitoring Management, Collection Management and Legal Follow-up as an Assistant General Manager Responsible for Credit Risk.

Fatih BOZ
Assistant General Manager
He was born in Edirne in 1973. In 1995, he graduated from the Faculty of Political Sciences, Ankara University. He has a master's degree in Political Science from the same school. In 1995-1998, he worked as a Director for various companies. In 1998, he joined Albaraka Türk family as an inspector assistant in the Inspection Board. In 2003, he served as Deputy Director of Operations Department, Branch Manager in 2006-2009, Manager at Project Management Department in 2010-April 2011, and later as Credits Operations Manager. During his tenure, he worked on many bank projects. In January 2017, he was appointed as Assistant General Manager responsible for central operations.

Hasan ALTUNDAĞ
Assistant General Manager
He was born in 1966 in Konya. He was graduated from Ankara University, Faculty of Political Sciences, Department of Economics. Between 1986-1999, he served as Inspector, Operations Director and Operations Field Director respectively at Yapı Kredi Bank. He served as Sultanhamam and Merter branches Manager at Bank Asya Participation Bank for the period between 1999-2004. In March 2004, he was appointed as Sultanhamam Branch Manager to Albaraka Türk. He served as Regional Manager of Marketing at Albaraka Türk between 2005 and 2011, Director of Transformation Administration Office between 2011 and 2013, and Manager of Strategy and Corporate Performance Management between years 2013-2016. As of January 2017, he was appointed as Assistant General Manager and he is responsible for Product Management Department, Alternative Distribution Channels Department, Customer Experience & Analytics Department and Public Relations and Communication Department.

Products, technology and innovations at Albaraka Türk

Tablet Computer Project & Maptriks Application

As Turkey's first participation bank, Albaraka Türk worked on various projects and applications in the field of digital banking for our portfolio managers and corporate banking customers in 2015-2016. We see the digitalization projects that we carry out in the area of technology as an important step in improving our efficiency, service quality, speed, competitiveness and customer oriented structure.

Albaraka Türk realized the Tablet Computer Project that will support our aim of being accepted as the "World's Best Participation Bank" and will positively contribute to our way of doing business with a brand new banking approach. Tablet PC Project is a technology-supported sales project that will make a positive contribution to the business manner of the Bank, digitize, and mobilize the sales and marketing processes by means of the tablet computers. This project was aimed at reducing the dependence of portfolio managers on the branches, enhancing our customer-oriented approach by offering a faster service in a more qualified manner and accelerating our operational processes.

Our portfolio managers can instantly offer prices for customers' projects by accessing the main banking system via the tablet computers they are provided with. Portfolio managers may also perform foreign exchange reservations, calculate forecasted profit shares and present it to customers, launch business flow by uploading the photographs of documents that are necessary to observe efficiency, maintain effective communication with head office units while being out of the branch by accessing e-mails, internal memos, and instants messages through tablet computers.

With the Tablet Project, we have been taking the opportunity to stay with our customers, more closely observe their needs and generate faster and more effective solutions for their problems. In doing so, we have brought the branch to their doorstep, making them feel valuable and offering flexible solutions that will provide ease in their business by moving one-step beyond just selling financial product to customers. We aim to raise customer satisfaction to the highest level with this flexible and value added service.

This Tablet Project will contribute to cost optimization by substantially increasing the efficiency of marketing, sales and operational processes while increasing our profitability. Within the scope of the Tablet Project, we will distribute 210 tablets that were purchased in the first phase, to field teams, the tablets provided in view of their performance ranking and branch customer intensity criteria. At the same time, we implemented the "Maptriks Saha" application, which is running with the mobile phone infrastructure and is designed to guide the field sales staff and increase the field sales effectiveness in order to reach commercial customers more actively in 2015. We aimed with "Maptriks Saha" application, to reduce the dependency of our Commercial Portfolio managers to the branches, to eliminate the manual processes and increases the number of customer visits, to increase the productivity thanks to its ability to assign the potential customers based on the location and to increase the motivation of the field team. In 2016 with "Maptriks Saha" application we received the first prize in the category of "Most Innovative Financial Technology Application" of "Financial Innovation Awards 2016", which is organized annually by British Bankers' Association (BBA) for the participants all around the world and is recognized as one of the most prestigious awards in the field of finance and banking. We received an innovative reward in recognition of these efforts, with the prize given to a participation bank from Turkey among many finalist banks such as Barclays and Lloyds Bank.

The successful results that we obtained on the back of the effort we have put in the area of technology both motivate our Bank and our employees, and encourage them to achieve better results. We will continue to work on new projects for our employees and customers.

"Kuveyt Türk continued its growth in 2016"

Ufuk UYAN
General Manager-Kuveyt Türk

The asset size of the participation banking sector in Turkey had exceeded TL 133 billion and the amount of funds allocated and leasing risk had exceeded TL 85 billion as per 2016 year-end.

Despite the economic volatility and challenging macroeconomic climate, the year 2016 was a year of continued growth for the banking industry. As of year end 2016, the asset size of the participation banking sector in Turkey had exceeded TL 133 billion and the amount of funds allocated and leasing risk had exceeded TL 85 billion. The collected funds approached TL 82 billion. Access to participation banking became easier thanks to an expanding branch network and the development of alternative distribution channels. While there was a gradual increase in interest in investment instruments such as Sukuk, which attracts foreign investors to the domestic market, the range of products and services offered by participation banks also expanded in 2016. Kuveyt Türk issued approximately TL 9.8 billion of Sukuk in different currencies including the US dollar, the Malaysian ringgit and the Turkish Lira, both domestically and abroad.

Participation banking continues to grow rapidly in the world with its volume exceeding USD 1 trillion. In addition to this growth in volumes, the sector has also spread geographically over a wider area. These positive developments also highlight the gradual increase in the influence and importance of participation banking in international financial markets. Turkey has posted one of the best performances in participation banking of any country. Participation banking, which undertakes important missions for the development of the country's economy such as transferring resources to the real sector, curbing the unregistered economy, intermediating in import and export financing and ensuring increased employment, adds value to Turkey. The structure that promotes saving rather than spending and the features such as profit sharing stand out as factors that increase interest in participation banking.

In 2016, we continued to increase our number of branches in order to expand our size. With 25 branches opened this year, our number of branches had reached 385 by the end of the year, and we aim to reach 400 branches in 2017. As a bank with so many new branches, the issue of efficiency is high on our agenda. We are in a sound position in terms of the cost/revenue ratio, but we are implementing many projects to improve the cost/revenue ratio further. While on one hand we are enlarging our size, on the other hand we are aiming to maximize our efficiency with the projects we undertake.

Kuveyt Türk has focused on developing its alternative distribution channels during this period when banking transactions are being transferred from the counter to electronic media. We carried out a digital transformation during 2016 so that our customers could access our products and services more easily and rapidly. We achieved significant results by digitizing 31% of our total active customers. Transactions carried out from our alternative distribution channels account for 74% of all banking transactions.

Since 2011, a total of 55 tons of gold was brought into the formal economy through the gold collecting activities undertaken by the banks. With the "Golden Days" campaign which we launched in 2011 and organized at our branches throughout Turkey, we brought in a total of 11.5 tons of gold, that that had been 'under the mattress' into the formal economy. More than 80,000 our customers attended the golden days held weekly at all our branches. Kuveyt Türk ranked first among participation banks in terms of the size of its gold accounts and increased its market share in the entire banking sector to 13%. The total size of our gold accounts of the Kuveyt Türk Participation Bank currently stands at approximately TL 2.3 billion.

With three innovative products such as Online Finance, Solid SME Card (Sağlam KOBİ Kart) and the DBS - the DTS (Direct Lending – Collection System), which we released in the field of SME banking this year, we increased both the institutional efficiency and service quality.

Kuveyt Türk continued to extend significant support for education and society...
Our Bank also maintained its support for education in 2016. We opened the Sabahattin Zaim University International Islamic Economy and Finance Application and Research Centre, having extended financial support to its construction in order to support the long-term development of participation banking.

As a well-established brand in Turkey with 27 years of experience under its belt, we continue to provide services throughout Turkey with 385 branches and 5,588 employees, contributing to the nation's employment. We recently recruited 200 staff. We also employ young university graduates within the company and train them from scratch through the Campus at the Bank program. We are running the

Management Trainee (MT) Program to bring talented and high profile candidates to our Bank and ensure their loyalty. While attracting new graduates to our Bank through the right recruitment process, we raise our managers from within. In line with this objective, to date we have appointed 97% of our managers from within the Bank.

We also continued to contribute to the Support for Hope project developed by the Hope for Child Cancer Patients Foundation (KAÇUV), which offers help to children with cancer. We have donated a total of TL 1,216,000 to the “Family Home” project for 4 years. In the coming years, we aim to lay the foundation of the second Family Home where children with cancer and their families, who are in need, can stay free of charge during the treatment. Thus, we aim to support more children and their families during the treatment processes.

Looking ahead to 2017...
“Efficiency” will be our priority in 2017 as well. While on one hand we will maintain our policy of growth and branch expansion, on the other hand we aim to increase the time we allocate to our customers by managing our organization, processes and procedures in the most efficient way. In order to increase the efficiency of our branches in line with this objective, we are centralizing operational activities by transferring them to an electronic format.

We also seek to minimize the operational burden placed on our employees with our new branch business model project. As part of this project, we are renewing our branch designs in a manner that will increase efficiency. In 2017, we aim to widen our product-service diversity in digital channels. In this vein, our mobile and internet branch will continue to provide services to our customers with its recently renewed interface. We will continue to work to expand and deepen the lease certificate market in Turkey and continue to expand our services in Germany, where we started operations last year with KT Bank AG, by accurately identifying our customers’ needs.

As a well-established brand in Turkey with 27 years of experience under its belt, we continue to provide services throughout Turkey with 385 branches and 5,588 employees.

Kuveyt Türk Katılım Bankası A.Ş.	KUVEYTTÜRK
Establishment Date	1989
Main Shareholders*	Kuwait Finance House (62.24%), Kuwait Public Institute for Social Security (9%), Islamic Development Bank (9%), General Directorate Foundation, Turkey (18.72%), Others (1.04%)
Chairman	Hamad Abdulmohsen ALMARZOUQ
General Manager	Ufuk UYAN
Headquarters	Büyükdere Cad. No: 129/1 34394 Esentepe/İstanbul/Turkey
Phone/Fax	+90 212 354 11 11 / +90 212 354 12 12
Web Site	www.kuveytturk.com.tr
Swift Code	KTEFTRIS
EFT Code	205
Number of Domestic Branches	385
Number of Branches Abroad	1
Number of Representative Offices Abroad	-
Financial Subsidiaries Abroad	2
Number of Employees	5,588

*The Bank’s shareholders with an interest of 10% and above, their shares and the percentage of publicly held shares.

Kuveyt Türk Senior Management

Ufuk UYAN
CEO
Born in Eskişehir in 1958, Ufuk Uyan graduated from Boğaziçi University, Department of Economics in 1981 and received his master's degree from the Department of Business Administration at the same university in 1983. After beginning his professional career as a Research Assistant at the Boğaziçi University, Department of Economics in 1979, he served as a Research Economist at the Turkish Industrial Development Bank's Directorate of Special Research in 1982. Mr. Uyan became a Deputy Project Manager at Albaraka Türk in 1985 and joined Kuveyt Türk as the Director of Projects and Investments in 1989. He was appointed as Executive Vice President in 1993 and later Executive Assistant to the CEO. Ufuk Uyan has been the Bank's CEO since 1999 and also serves as member of the Board of Directors, Executive Committee, Credit Committee, Remuneration and Nomination Committee, and Corporate Social Responsibility Committee.

Ahmet KARACA
Executive Vice President - Financial Control (Chief Financial Officer)
Born in Konya in 1970, Ahmet Karaca graduated from Ankara University, Faculty of Political Sciences, Department of Public Administration in 1990. Starting his career as Assistant Sworn Bank Auditor at the Undersecretariat of the Treasury in 1992, Mr. Karaca was promoted to Sworn Bank Auditor in 1995. Joining the Banking Regulation and Supervision Agency of Turkey with the same title and function in 2000, he became the Deputy Chief Sworn Bank Auditor at the Banking Regulation and Supervision Agency of Turkey between 2002 and 2003, and was appointed Chief Sworn Bank Auditor in 2004. Between 2004 and 2006, Ahmet Karaca received a master's degree in Economics from the State University of New York at Albany, with a master's thesis on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk in July 2006 as Executive Vice President of Financial Control (Chief Financial Officer), a position he continues to hold.

A. Süleyman KARAKAYA
Executive Vice President - Commercial Banking
Born in İstanbul in 1953, A. Süleyman Karakaya graduated from İstanbul University, Faculty of Economics, Department of Business Administration and Finance in 1979. Mr. Karakaya started his banking career as an Auditor at Garanti Bank and later worked in the Internal Audit Board, Risk Management Department, Credits Department and Regional Offices of the same bank between 1981 and 2003. He was appointed as Executive Vice President of Corporate and Commercial Banking of Kuveyt Türk since 2003.

Bilal SAYIN
Executive Vice President - Credits (Chief Credit Officer)
Born in Sakarya in 1966, Bilal Sayın graduated from the Middle East Technical University, Department of Public Administration in 1990 and began his professional career in the banking industry the same year. He joined the Kuveyt Türk family in 1995 and worked at the Project and Investment Directorate. Mr. Sayın was assigned as the Financial Analysis and Information Manager in 1999 and he has been serving as the Executive Vice President of Loans at Kuveyt Türk since 2003.

Hüseyin Cevdet YILMAZ
Head of Risk, Control and Compliance
Born in İstanbul in 1966, Hüseyin Cevdet Yılmaz graduated from Boğaziçi University, Department of Business Administration in 1989. Mr. Yılmaz began his banking career as an Assistant Auditor at Esbank's Internal Audit Board. After having served as the Inspection and Branch Manager in the same institution, he joined Kuveyt Türk in September 2000 as the Head of the Internal Audit Department. Hüseyin Cevdet Yılmaz was appointed as Head of the Audit and Risk Group in 2003. Since 2012, Hüseyin Cevdet Yılmaz has been serving as Head of Risk, Control and Compliance.

İrfan YILMAZ
Executive Vice President - Banking Services
Born in Hakkari in 1970, İrfan Yılmaz graduated from İstanbul Technical University, Department of Management Engineering in 1989. Beginning his banking career at the Financial Affairs Department of Kuveyt Türk in 1990, Mr. Yılmaz was assigned to the Internal Audit Department in 1996 and later served as the Head of the Internal Audit Department between 1998 and 2000. Appointed as Manager of Retail Banking in 2000, İrfan Yılmaz was promoted to Executive Vice President of Retail Banking and Business Banking in 2005 after serving in the Retail Banking Department for five years. Since October 2012, he has been serving as Executive Vice President - Banking Services.

Dr. Ruşen Ahmet ALBAYRAK
Executive Vice President - Treasury and International Banking
Born in İstanbul in 1966, Mr. Albayrak graduated from the Industrial Engineering department of İstanbul Technical University in 1988. He received Post Graduate degree in Organizational Leadership and Business at North Carolina State University (USA) in 1993 and PhD degree on Technology Management at İstanbul Technical University in 2007. Having joined participation banking sector 29 years ago, Mr. Albayrak has been serving as the Executive Vice President at Kuveyt Türk since 2005. He managed Banking Service Group till October 2012 and he was assigned as the Executive Vice President of Treasury and International Banking as of same date.

Nurettin KOLAÇ
Executive Vice President - Legal and Risk Tracking
Born in Elazığ in 1966, Nurettin Kolaç is a graduate of Marmara University, Faculty of Law. He worked as freelance attorney and legal advisor in the banking, leasing and insurance industries. He worked as the Vice Head of Department and head of Department (Legal) in Banking Regulation and Supervision Agency from 2004 till April 2010. Mr. Kolaç has an experience of 28 years in law and banking and he has been serving as the Executive Vice President of Legal and Risk Tracking in Kuveyt Türk since April 2010.

Aslan DEMİR
Executive Vice President - Strategy
Born in Amasya in 1971, Mr. Demir graduated from Marmara University, International Affairs Department. He completed Executive MBA program at Sheffield University with his thesis about "Critical Elements of Strategy Implementation in Banking Sector". He began his banking career in Kuveyt Türk Treasury Directorate in 1995, served at the Treasury Directorate for 6 years and continued his career at Project Management and Quality Directorate between 2001 and 2004. He was assigned as the Project Management and Quality Manager in 2005 and he continued his career as the Information Technologies Group Manager upon the new set-up in 2007. He has been serving as the Executive Vice President of Strategy since October 2012.

Mehmet ORAL
Executive Vice President - Individual Banking
Born in İstanbul in 1967, Mr. Oral graduated from the Business Administration Department of Uludağ University. He began his career in Kuveyt Türk family at the Head Office Branch in 1992. He worked as the manager in İMES, Bursa and Merter branches between 2000 and 2005 and he was assigned as the Regional Manager at the İstanbul European Side Regional Directorate in 2005 after the transition to Regional Directorate structure. After having served as the Regional Manager for 4 years, he continued his career as the HR, Training and Quality Group Manager in 2009. He has been serving as the Executive Vice President of Individual Banking since October 2012.

Abdurrahman DELİPOYRAZ
Executive Vice President - SME Banking
Born in İstanbul in 1968, Mr. Delipoyraz graduated from the Industrial Engineering Department of İstanbul Technical University. He began his career in Kuveyt Türk family at the Project and Investment Directorate and he worked at the Corporate and Commercial Banking Sales Directorate and Financial Analysis and Information Directorate till 2000. Mr. Delipoyraz worked as the Branch Manager at Beşyüzevler and Bakırköy branches between 2000 and 2004 and he was assigned as the Regional Manager in December 2004 and he worked at İstanbul Europe 1 and İstanbul Anatolia Regional Directorates. He has been serving as the Executive Vice President of SME Banking since January 2015.

Kuveyt Türk's innovation in its products, technology and subsidiaries

Digital Transformation
Kuveyt Türk carried out an important transformation in 2016 by digitalizing 31% of its total active customers. Alternative distribution channels accounted for 74% of the Bank›s banking transactions, as the Bank added new functions to online and mobile branches. Kuveyt Türk serves its customers from online and mobile branches, which were renewed very recently and will continue to widen its product and service diversity in these channels in 2017.

Carrying out PPS online with "Senin Bankan (Your Bank)"
Kuveyt Türk presented Senin Bankan (Your Bank) in 2015 as Turkey's first digital interest free banking platform. The Bank blazed a new trail by moving the Private Pension System (PPS) to a digital platform and became the first and only participation bank to carry out PPS transactions online. PPS participants are able to save for their retirement with lower contributions by participating in a lower-cost retirement plan without needing to go the branch.

Senin Bankan (Your Bank) platform, which the Bank offered customers to enable them to carry out banking transactions whenever and wherever they want, can be accessed free of charge on a 24/7 basis. The Bank acquired 60,000 new customers over the platform, 70% that are under the age of 35, and the Bank reached TL 80 million of deposits obtained fully from newly acquired customers.

Three new products in SME banking
Kuveyt Türk has enhanced not only its product and service diversity but also its technological infrastructure to offer the best financial support to SMEs. The Bank started innovative transformation process in the field of SME banking. The Bank continues to increase its service quality and customer satisfaction within the framework of its vision "to generate qualified and rapid solutions at the closest point to customers".

In 2016, Kuveyt Türk offered its customers the «Online Finance» product, which provides fast and lower-cost funds via mobile and online branches, the Sağlam KOBİ Kart (Solid SME Card) which offers funds from current limits with up to 12 installments on a 24/7 basis and "DBS-DTS products" which provides guarantees and credits to collections that companies make from their dealers. In addition to providing these products, Kuveyt Türk remains near its customers and gives them strong support with Business Plus and Palm cards, POS solutions and security software.

Leasing with Profit Share
Kuveyt Türk offers a new opportunity via Leasing with Profit Share, which was designed for SMEs. This product allows companies to increase their revenues more easily. Undertaking leasing investments provides investors with maturity and cost advantages.

Virtual POS advantages for enterprises
With its Free POS product, Kuveyt Türk offers the Virtual POS service, which banks normally charge high fees for but Kuveyt Türk offers without charging an installation or membership fee. Moreover, member enterprises, which collect periodic contributions or regular payments from their customers, may utilize the Virtual POS by using the collection system without paying installation or membership charges. By offering enterprise owners the opportunity to reach many member enterprises throughout the country via New Generation Payment Recording Devices agreements, Kuveyt Türk offers them a number of advantages including increased revenue and the ability to control cash flow in a more practical way, while minimizing the risk associated with having large sums of cash.

Turkey's biggest issuer of Sukuk
Kuveyt Türk carried out Turkey›s first Sukuk issuance in 2010. The Bank has so far conducted TL 9.8 billion of lease certificate issuances in Turkey and abroad in US dollar, Malaysian ringgit and Turkish Lira denominations. Kuveyt Türk maintained its title as Turkey's biggest Sukuk issuer by carrying out a subordinated Sukuk issuance of USD 350 million in February 2016, a domestic lease certificate of TL 300 million in May and an international Sukuk issuance of USD 500 million in October. In addition, the Bank received the award for "Turkey's Best Islamic Finance Institution" which is given by Global Finance, and the "Issuer of the Year in Turkey" award given by Islamic Finance News.

Our R&D Center celebrates its 5th year.
Kuveyt Türk R&D Center, which continues to bring innovation to the banking sector thanks to its enriched team and improved infrastructure, completed its 5th year of operation. The R&D Center operates with the aim of combining and bringing Kuveyt Türk's technology and R&D vision together with the country's vision. The Center focuses on generating projects that will increase Turkey's prestige in the area of technology. Kuveyt Türk's R&D Center received the "Best R&D Center" reward in the Banking and Finance Sector category of the fifth Private Sector R&D Centers Summit. The Center has received this reward for three consecutive years.

Developments in KT Bank AG
Kuveyt Türk introduced Germany to participation banking through KT Bank AG in 2015. The Bank started to operate in Frankfurt, Mannheim and Berlin. The Bank opened its fourth branch in Cologne in 2016. Kuveyt Türk aims to deepen in Germany by focusing on comprehensive strategy tasks. The Bank will continue its efforts for determining customers' needs in the best way and making its services widespread.

KuveytTürk
PARTICIPATION BANK INC.

SAĞLAM KART

SAĞLAM CARD

for people who are prudent.

Sağlam Card by Kuveyt Türk.

NO CREDIT CARD FEE

ANNUAL GOLD GIFT OF 50 TL

5 INTEREST-FREE INSTALLMENTS FOR EDUCATION AND HEALTH EXPENSES

For application and more information: Kuveyt Türk branches | kuveytturk.com.tr

Gold gift of 50 TL is conditional upon that at least 200 TL is spent per month using the credit card during 12 months and that the credit card debt is paid regularly. The gift is transferred to the customer's account at the end of 12 months. Option for 5 installments with no extra charge is valid for spending at least 100 TL at the retailers with MCC codes "Education" and "Health". Kuveyt Türk is entitled to make changes to campaign and product specifications. For more information: 444 0 123 and www.saglamkart.com.tr

"We devote all our strength to supporting the real economy"

Wael Abdulaziz A. RAIES
General Manager-Türkiye Finans

As Türkiye Finans, we serve more than 3 million customers with 286 branches and around 4,000 employees at the end of 2016.

We remain totally devoted to supporting the real economy.
As you know, the year 2016 was a year when risk and uncertainty increased, economic balances changed rapidly in the world and in Turkey, and we were buffeted by a series of events, one after another. However, thanks to the trust of our shareholders, our customers, our dedicated employees and all of our stakeholders, we were able to maintain our position in the sector without losing our belief in sustainable growth.

As one of the pioneer and deep-rooted financial institution in the participation banking sector, we serve more than 3 million customers with 286 branches and around 4,000 employees at the end of 2016. Our customers, and our products and services that we are continuously developing, have been the most important building blocks on our road to success.

The high volatility observed in exchange rates at the end of 2016 led to an increase in the risks our customers are exposed to. In line with our philosophy of supporting the businesses of our customers, who are always our focus, and supporting them during this period of high volatility, a time marked by unhealthy price formation, we provided counselling services for our Bank's customers to help them manage their balance sheet risks. Türkiye Finans has taken steps to minimize the impact of the changes experienced on the Turkish economy. We contributed to the continuation of our customers business activities by adapting the payment plans of our customers, who have been affected by economic variables and whose payment cycles have been affected by the movements in exchange rates, to be in accordance with customer needs. Developing alternative solution scenarios to restructure the debts of our customers, who have suffered additional losses on foreign currency denominated bank debts as a result of the fall in the value of the Turkish Lira, was one of the important actions we took in supporting our customers and the Turkish economy. Within the scope of consultancy services, we analyzed the cash flows of our customers and contributed to the management of our customers' commercial risks by offering forward products in the required maturity and currency.

In 2016, the total assets of Türkiye Finans have reached TL 38.8 billion. We supported the real economy through TL 27 billion loans we extended which had 70% share in our assets. On the other hand, funds collected have reached TL 21 billion with 54% share in total liabilities while we diversified our funding base through TL 1 billion worth of Sukuk issuances in 10 separate transactions.

Our main shareholder, National Commercial Bank (NCB), continues to provide full support for the Bank. As we retained our profit in 2016, our shareholders' equity reached TL 3.7 billion. That being said, we managed to improve our resilient capitalization and increased the capital adequacy ratio (CAR) by a significant 207bp to 15.6%. Our proactive approach in utilizing subordinated loans also served as a natural hedge against the negative impact of currency volatility on our risk-weighted assets.

Since 2010, Türkiye Finans has provided a total of TL 1.3 billion in funds under the guarantee of the Credit Guarantee Fund (CGF) to SMEs, which are the building blocks of the economy. In this context, our Bank acted as an intermediary for the SMEs to reach funding sources and to grow by providing support and consultancy services. We achieved a market share of over 16% in loans granted through the CGF in 2016 and ranked second among all the banks. There will be many innovations in the content of security opportunities offered to SMEs by the CGF in 2017. We believe we will achieve market leadership in terms of loans granted through the CGF by rapidly completing our infrastructure work for the changes that will take place. Today, the products and services offered in the banking sector are similar to each other. As far as Türkiye Finans is concerned, the biggest difference we make at this point is the close connections we have established with our customers thanks to the consultancy services that guide the daily life of the SMEs.

In 2016, we received the CIO Award that is given to Turkey's most successful information and communication technology projects. Meanwhile, we earned the first and second prizes in the 'Technology Awards' given by the Turkey office of International Data Corporation (IDC), the leading global research organization in the field of information technologies and telecommunication, in two separate categories with the "Transformation Program-Main Banking Transformation". "Digital Transformation" studies will continue to be one of our priorities in 2017.

We completed the necessary infrastructure work in this vein in recent years and completely renewed our corporate website, internet banking, mobile banking, ATM and call center channels. We also installed the necessary application infrastructure in order to render our business processes more efficient by moving them to digital media. We will continue these efforts that will increase operational efficiency and automation throughout the year. We also started to work on joint projects with expert Fintech companies. We believe that 2017 will be a year, when we will introduce our customers to our innovative products and services.

An internet branch that can be personalized
We brought in a structure to our internet branch that can be fully personalized by offering applications that will further speed up banking operations, through a renewal of the site in which the user experience was prioritized. With this renewal, our customers are able to carry out their own banking transactions through the internet branch that they can personalize in accordance with their needs.

We will develop value-added products and services with the TFKB R&D Centre.
Within the framework of our application approved by the Ministry of Science, Technology and Industry, our TFKB R&D Centre was registered on February 21, 2017 with a total of 15 projects, which are ongoing and planned within our Bank. Türkiye Finans aims to realize joint projects with our R&D Centre and technology companies, which will develop Finance Technologies (FINTECH start-up) and research/incubation centers in accordance with the scope of the project, thus accelerating the digital transformation in the banking sector. We therefore aim to bring in value added products and services to the finance sector and our country.

Working for a sustainable future
Our Bank is working towards a sustainable future by fulfilling its social responsibilities while making many decisions and taking actions to offer its customers the best service in the sector. In this context, we provided support to the historical Kırkpınar Oil Wrestling event that, after the Olympics, is one of the world's most deeply rooted sport events with a 655 year history. We were delighted to stand with our visually impaired citizens at the Dialogue in the Dark exhibition, which shows how visually impaired people experience everyday life and has reached more than 7 million people in 130 cities in the world since 1988. The projects we have supported in recent years include the Anadolu Brands competition, held to increase awareness of Turkish companies outside of İstanbul which are taking important steps towards branding, and the Mobile DownCafe applications, which were developed to encourage young people with Down's syndrome to participate in social life and work, and which provide services at different points in İstanbul.

We were proud to offer our support as the main sponsor in the fifth «Şeb-i Arus (the Night of the Union) İstanbul 2016" ceremonies, in which the master of Islamic Sufism Mevlana (Rumi), master of ideas and the heart, is commemorated. We were also among the supporters of the 15 March Martyrs Memorial Program organized by Dr. Arif Şanlı Musical Association in memory of those who gave their lives in Çanakkale. On the other hand, we sponsored important events that would contribute to the development of our industry. In this vein, we participated in the Islamic Finance News Turkey Forum, which involved discussions in all aspects of participation banking, which began operations in Turkey in 1985. We became the sole supporter of the Sukuk Conference organized by the Deloitte Turkey, which represents an important area for participation banking.

We will expand participation banking in 2017.
While we steer the participation banking sector, which is enriched by the entry of new players, with our experience we will continue to achieve firsts in the sector with our approach to innovation that we attach such great importance to. There has been an increase of over 100% in the market share of the participation banking sector over the past 10 years, which has clearly revealed the potential of our industry. We predict that this increase will continue, as set out in the Strategy Document of the Participation Banks of Turkey, and that our market share, as a sector, will reach 15% by 2025. Our Bank, which has been performing steadily for years, will greatly contribute to this increase. We extend our sincere gratitude to our employees, our shareholders and our customers, with whom we progress towards this goal together. We believe we will go beyond our targets with their support and that we will make Turkey one of the most important bases of participation banking in the world.

Türkiye Finans Katılım Bankası A.Ş.	Türkiye'nin Finans'ı Türkiye Finans
Establishment Date	1991 (Anadolu Finans); 2005 Türkiye Finans
Main Shareholders*	The National Commercial Bank (NCB) (67.03%) Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş. (10.57%) Other Shareholders (22.40%)
Chairman	Saeed Mohammed A. ALGHAMDI
General Manager	Wael Abdulaziz RAIES
Headquarters	Hürriyet Mah. Adnan Kahveci Cad. No: 131 34876 Kartal/İstanbul/Turkey
Phone/Fax	+90 216 586 70 00 / +90 216 586 94 74
Web Site	www.turkiyefinans.com.tr
SWIFT Code	AFKBTRIS
EFT Code	206
Number of Domestic Branches	285
Number of Branches Abroad	1
Number of Representative Offices Abroad	-
Financial Subsidiaries Abroad	-
Number of Employees	3,989

*The Bank's shareholders with an interest of 10% and above, their shares, and the percentage of publicly held shares.

Türkiye Finans Senior Management

Wael Abdulaziz A. RAIES
Board Member and CEO
Born in 1972 in Makkah, Saudi Arabia. Earned a degree in Electrical Engineering in 1996 from King Fahd University of Petroleum & Minerals and master's degree in Business Administration in 2004 at King Saud University. Joined Schulmberger Wire line & Testing (Oil Services) in 1996 as a Field Engineer operating in different geographical locations both off-shore and on-shore reaching the Engineer-In-Charge of Qatar land locations. He started his banking career in 1999 in Commercial Banking business in Saudi American Bank, a Citibank subsidiary. Joined The National Commercial Bank Corporate business in 2002 as a Senior Relationship Manager. He progressed to Commercial Business in NCB leading Central Region in 2008, followed by leading Eastern Region in 2010. He then moved on to Head Office to lead Commercial Business Kingdom wide in 2013. Prior to his appointment as Country Head, he headed the Finance Restructuring in June 2013 for a brief period. Over the years, Mr. Raies has attended specialized Engineering, Banking and Leadership courses with reputable schools such as INSEAD, Darden and Harvard Business School. He was appointed as CEO and Board Member at Türkiye Finans Participation Bank as of November 1, 2016.

Ahmet MERT
Executive Vice President
Born in Kırşehir in 1978, Ahmet Mert graduated from İstanbul University Faculty of Engineering, Department of Electrical and Electronics Engineering. Starting his career in the telecommunications industry, Mr. Mert embarked on banking sector and having started at Garanti Payment Systems in 2001. He was responsible for Credit Assignment, Monitoring and Tracking Strategies and Policies at Risk Management and R&D/Business Development Units. He joined Turkey office of Experian, a global consultancy firm in 2006, where he worked as manager of Consultancy and Support Unit for Turkey and the Middle East. In 2010, he joined Türkiye Finans group as Risk Analysis Manager Ahmet Mert was appointed as principal to the role of Executive Vice President of Credit Quality and Collections on September 30, 2016, a position he had been assuming by proxy since July 2016.

Fahri ÖBEK
Executive Vice President
Born in 1969. He graduated from Computer Science and Engineering Department, Ege University and received his Master's degree in Business Management from Koç University. He started his business career Bilpa and then continued at Egebank. He held various positions in Koçbank. After the merger of Koçbank and Yapı Kredi in 2006, he took the position of Senior System Analyst in the Software Development. He was the Deputy General Manager in Charge of IT Management in Yapı Kredi Bank between 2008-2010. He served as the Department Head in Charge of Information Technologies, Vodafone Turkey (CIO) between 2010-2011. He has been the Executive Vice President responsible for IT Systems in Türkiye Finans since June 2011.

Hakan UZUN
Executive Vice President
Born in 1968, Hakan Uzun graduated from the Middle East Technical University (METU), department of Mechanical Engineering in 1991. He went on to obtain a master's degree at the University of Illinois in the USA between 1992 and 1995. He started his career in banking in 1996 at Körfezbank. He worked for various private banks as a senior executive in the area of Treasury and Financial Markets. Between 2008 and 2011, he worked at ING Bank Turkey as the Group Manager Responsible for Treasury and in October 2011, he joined the Türkiye Finans family as the Treasury Manager. He has been serving as the Vice General Manager responsible for the Treasury since November 10, 2015. Also from March 2, 2017, he is appointed to the Executive Vice President of Corporate and Commercial Banking in acting authority, in addition to his current position.

Mete Mehmet KANAT
Executive Vice President
Mete Kanat was born in Ankara in 1977. He studied Business Administration at Hacettepe University and holds an MBA degree from İstanbul Bilgi University. Mr. Kanat worked as a Bank Examiner at the Banking Regulation and Supervision Agency from 2001 to 2007, and as Deputy General Manager at Creditwest Bank (Ukraine) from 2007 to 2011. Mete Kanat joined Türkiye Finans as the Director of Legal Reporting and Financial Control in 2011. In 2014, he became Head of Risk Management Group. On March 31, 2016, he was appointed as the Vice President of Risk Management Group, continuing with his former duty. On September 30, 2016, Mete Kanat was appointed as the Executive Vice President of Finance and Strategy.

Mehmet Necati ÖZDENİZ
Retail Banking Executive Vice President
After achieving a B.A degree in Sociology at the Middle East Technical University, Mehmet Necati Özdeniz joined Fortis Bank as a Network and System Management Assistant Specialist in 1999. He worked as Research Specialist at Veri Araştırma A.Ş. and Oyak Bilgi Teknolojileri from 2000 to 2003 and Data Research Manager at Oyak Bank from 2003 to 2005. In 2005, he started serving TEB as CRM and Segmentation Manager. He was transferred to Tekstilbank as CRM Manager in 2007. He worked as CRM and Segmentation Manager at Aktif Bank from 2008 to 2012 and CRM Senior Manager at TEB from 2012 to 2013. Having joined Türkiye Finans family in 2013, Mr. Özdeniz assumed the position of Customer Analytics and CRM Manager until 2015. He started working as CRM and Marketing Director at CarrefourSA in August 2015. Mehmet Necati Özdeniz has been working as Retail Banking Executive Vice President at Türkiye Finans since April 3, 2017.

Züleyha BÜYÜKYILDIRIM
Executive Vice President
Born in İstanbul in 1981, Züleyha Büyükyıldırım graduated from İstanbul Bilgi University as a double major with degrees in Economics and International Relations in 2004. She started her career at Kuveyt Türk. After joining Türkiye Finans family in 2006, Züleyha Büyükyıldırım worked at the Treasury Department and then served as Deputy Manager and Manager at the Strategy and Program Management Department. On September 30, 2016, she was appointed as principal to the role of Executive Vice President of Human Resources, a position she had been assuming by proxy since June 2016.

Abdüllatif ÖZKAYNAK
Senior Executive Vice President
Born in Antalya in 1960. He graduated from the Faculty of Economics and Administrative Sciences, Gazi University. Started his business career in Egebank, he held various positions at Accounting, Budgeting and Financial Control Department of the bank. He became the Financial Affairs Group Manager in Anadolu Finans Kurumu in 1998. He took active roles in the merger of Family Finans and Anadolu Finans as well as in the sale of majority shares of Türkiye Finans Participation Bank to NCB. After working as Financial Control Manager in the Accounting and Budget Department, he has been serving as the Executive Vice President responsible for Finance since August 2011. He took over the role of Executive Vice President of Finance in August 2011 and serves as the Executive Vice President of Finance and Strategy between 2015 and

2016. Abdüllatif Özkaynak served as the Acting CEO and Board Member in Türkiye Finans as of June 2016. As the date of November 1, 2016, he has become Senior Executive Vice President Responsible for Internal Systems.

Özer BARAN
Executive Vice President
Özer Baran, born in 1977 in İzmir, was graduated from Bilkent University, Engineering Faculty, Department of Industrial Engineering in 1999. He earned his master's degree from the İzmir University of Economics Graduate School of Financial Economics and currently continues his study for PhD at Kadir Has University Department of Finance and Banking. Özer Baran started out his career as an auditor at the Directorate of Supervisory Board of Türkiye İş Bankası A.Ş. in 1999. He then worked as an assistant manager at the Corporate and Commercial Loans department of HSBC Bank A.Ş. between 2007 and 2009 and as a manager at the Risk Management department of Eurobank Tekfen A.Ş. between 2009 and 2010. He joined the family of Türkiye Finans in 2010 and worked as a manager at the Directorates of Risk Policies and Reporting and then Project Loans and Commercial Allocation, respectively. Özer Baran has been working as an Executive Vice President at the Risk Management department since September 30, 2016.

Murat AKŞAM
Executive Vice President
Murat Akşam graduated from the İstanbul Technical University department of Management Engineering in 1990. He worked as Sales Representative in Beko between 1991-1993, and as Regional Responsible in RAM Foreign Trade Corporation between 1993-1997. He started working as Credit Officer and Credit Allocation Assistant Manager in the Turkish Economy Bank in 1997. He served as the Corporate Credit Manager between 2000-2005, as Corporate and Commercial Credit Allocation Director between 2005-2014, and as Corporate Banking Group Director between 2014-2017. Murat Akşam has been working as Commercial Banking Executive Vice President at Türkiye Finans since May 2, 2017.

Sabit Özgür KUTAY
Executive Vice President
Sabit Özgür Kutay holds a BSc degree in Electronic Engineering from Middle East Technical University, and an MBA degree from University of Florida. After working as a Consultant in Deloitte & Touche from 1992 to 1993 and as a Manager in Intergraph Corporation from 1993 to 1994, Mr. Kutay started at Citibank Turkey in Corporate Banking and served in Project Finance Unit and Corporate Branch. In 1999, he started to work as Head of Financial Institutions, Risk Management Country Officer, Director and Senior Credit Officer till 2011. Then he worked as Managing Director in Citi Group Kuwait from 2012 to 2016. Mr. Kutay is currently working as Credits Executive Vice President at Türkiye Finans since April 18, 2017.

Products, technology and innovations at Türkiye Finans

TFX Target Forward

TFXTARGET, which is the first in its field, remains a unique product in the banking sector thanks to its structure, which is integrated with bank accounts. With its order structure, TFXTARGET serves its customers 24 hours a day over the 5 days a week that global markets are open. TFXTARGET became a dynamic platform that meets its users' needs for foreign exchange transactions by adding forward foreign exchange transactions to its product range in 2016. The platform enables forward transactions with a maturity of up to 365 days. The platform also enables all foreign exchange transactions to be carry out without the need for branches. With all of these features and more, TFXTARGET will start serving its customers on IOS/ANDROID smartphones and tablets in 2017.

Findeks service package

Türkiye Finans, the leading and most innovative institution in participation banking, started the sale of Findeks packages in 2016. Findeks packages enable individuals and corporations to track their credit ratings in the eyes of banks and to request reports of the individuals and corporations with which they will have business relations. The Findeks product, which is a financial services platform designed for individuals and the real sector and implemented by the Credit Registration Bureau (KKB). The Bank's customers can track their credit payment performances in a secure and comfortable way with two types of packages; retail and commercial. Customers have the opportunity to manage their risks accurately over Turkey' biggest financial data network. Türkiye Finans continued to improve its product range in view of the needs and expectations of its customers in 2016. Türkiye Finans's retail Findeks package includes Findeks credit rating, risk report, tracking, alert services, rating advisory and follower services while the commercial package is composed of the Findeks credit rating, risk report, cheque report and letter of guarantee report.

The Internet Branch was renewed.

Türkiye Finans renewed its internet branch last year. New design of the internet branch, which has become a "more like a conventional branch" with applications that will further speed up its banking operations, stands out with its completely customizable features. The Bank's customers can locate transactions they carry out most frequently by customizing the main page according to their preferences by selecting tools offered on the main page of online branch. While graphs are at the forefront in the new website, priority has also been given to visual designs that enable faster and easier transactions. In money transfers, it is sufficient to merely enter the IBAN number with the new application. In other words, the Bank itself directs customers on whether a transaction is a Money Order, EFT or Foreign Exchange Order, depending on the order given.

Esnaffinans campaing

In 2016, the Türkiye Finans Participation Bank continued to support artisans with a financing campaign that includes long term and reasonable pricing. The campaign was offered with the motto of "Let Our Artisans Smile and Prosper" under the roof of "esnaffinas" where Türkiye Finans gathered all services for artisans. This campaign included a grace period of up to 3 months, quarterly payments and flexible payment installment plans. Financing of up to TL 500,000 was provided to artisans within the scope of the campaign, which continued until October 31, 2016. The Bank's customers benefited from the campaign, which was provided with maturities of up to 60 months, in the purchase of products, services, vehicles and real estate. Terms of

up to 24 months was offered for financing support of up to TL 250,000 in the purchase of products and services while financing of TL 250,000 with terms of 48 months was provided for purchases of vehicles. Financing of up to TL 500,000 with terms of up to 60 months was provided in purchases of real estate. The campaign offered artisans preferential payment options including a 3-month grace period, quarterly payments, balloon payments and variable installment payments.

Housing account

Turkey Finance has begun offering different payment options for the State subsidized "Housing Account" (Konut Hesap) in 2016.

The Housing Account is aimed first-time housing buyers, with government support of up to 20% of the value of the home subject to a maximum of TL 16,400, which is placed in the account. Customers of the Bank are obliged to remain within the system for a period of at least three years within the scope of the Housing Account.

"We have brought the sector tremendous dynamism on the journey we have embarked on as the second public participation bank"

İkram GÖKTAŞ
General Manager-Vakıf Katılım

On the journey we started as the second public participation bank in February 2016 with the aim of bringing a breath of fresh air to participation banking by combining the power of public with the centuries-old experience of the General Directorate of Vakıflar, I believe that we have brought tremendous dynamism to the sector, even though we have not yet completed 10 months of operation.

Vakıf Participation reported a net profit of TL 19 million in the 2016 full year. We extended important support to the economy, totaling TL 4.4 billion of loans including TL 3 billion in cash and TL 1.4 billion in non-cash in the same period.

We collected TL 3 billion of funds in 2016 and extended more than this amount to the real sector as support, and reached an asset size of TL 4.7 billion. We enjoyed a very successful period financially based on all data. At the end of 2016, we reached our target of 30 branches for the year-end and succeeded in meeting our targets in all items.

Unfortunately, in 2016, our country went through some challenging events. In order to meet the expectations of our state, which was unwavering in its support for the development of participation banking even in this difficult time, and our nation, which showed great interest in interest-free banking, we continued our work with perseverance and without interruption. As the youngest player in the sector, today we are proud of having achieved important successes even before completing our first year of operation.

Vakıf Participation has set its vision being the reference institution in participation banking. Within this vision, our primary goal is to expand the sector, bring more funds into the system both at home and abroad and to reach more people. Within the scope of our objective of growing together with the sector, we expect our market share in participation banking to rise to 10% in 2018. We also expect our market share to reach a level that will make us the sector leader in 2023.

"We surpassed our target for branches even before completing our first year of operation."
We are going through a maturity and growth process backed by the centuries-old foundation culture that is the heirloom of ancestry and spurred on by the dynamism brought by our youth and public support. As a new bank, in the first stage, we are seeking to rapidly build our branch network and contact as many customers as possible. In this direction, we reached a total of 30 branches in different cities, including 10 in İstanbul through a succession of branch openings, with increased concentration since October. With the Prime Ministry General Directorate of Foundations owning the entire capital of Vakıf Participation, we attracted intense interest and appreciation, and we work with the sensitivity of being a foundation in addition to a public institution.

We set our vision being the reference institution in participation banking.

We will continue to expand our branch network throughout Turkey in 2017, in order to respond to this interest and in line with our growth strategy and principle of being close to our customers. In addition, we aim to meet all of the financial needs of individual customers and SMEs with our program of opening new branches, and to support them while making use of their savings.

"We will be the sector's biggest supporter by continuing to grow rapidly but firmly."
We are happy to have achieved the targets for all items in 2016. This accomplishment that we have achieved without completing our first year yet increases our perseverance for future and our desire to work. When we were setting the targets for the year 2017, we considered this achievement and met the expectations of our people. In this direction, in 2017, we set the target of 100% growth in all financial items. In this stage, reaching a total of 75 branches and about 1,000 employees by opening 45 new branches are amongst our key targets.

The sector, whose growth has gained pace in recent years, accounted for about 5% of total banking assets as of the end of 2016. We believe the participation banking sector's target of reaching a 15% share of the banking sector by 2025 will be achieved and even exceeded thanks to the supportive parameters such as public support in the coming period, warm relations with Gulf States and the importance attached to participation banking in the İstanbul Finance Centre project.

We believe we will play an important role especially in bringing foreign funds into to our country due to the sense of confidence given by being a public bank, and we will provide important contributions to the sector in this field. We plan to play an active role in investment and project financing with profit/loss partnerships and capital issuances, as well as diversifying our products and services in individual segments. It is up to Vakıf Participation to create confidence in society as a whole in a constructive competitive environment, and to expand the sector. As the Vakıf Participation family, we are always ready to fulfil all the duties that fall on our shoulders in this journey.

Vakıf Katılım Bankası A.Ş.	VAKIF KATILIM
Establishment Date	2016
Main Shareholders	Turkish Prime Ministry's General Directorate of Foundations (99%), Bayezid Han-ı Sani (II.Bayezit) Foundation (0.25%), Mahmud Han-ı Evvel Bin Mustafa Han (I. Mahmut) Foundation (0.25%), Mahmud Han-ı Sani Bin Abdülhamid Han-ı Evvel (II. Mahmut) Foundation (0.25%), Murad Paşa Bin Abdusselam (Murat Pasha) Foundation (0.25%)
Chairman	Öztürk ORAN
General Manager	İkram GÖKTAŞ
Headquarters	Gülbahar Mahallesi Büyükdere Caddesi No: 97 Şişli/İstanbul/Turkey
Phone/Fax	+90 212 337 80 00 / +90 212 337 80 90
Web Site	www.vakifkatilim.com.tr
SWIFT Code	VAKFTRIS
EFT Code	210
Number of Domestic Branches	30
Number of Branches Abroad	-
Number of Representative Offices Abroad	-
Financial Subsidiaries Abroad	-
Number of Employees	433

Vakıf Katılım Senior Management

İkram GÖKTAŞ
CEO of Vakıf Participation
Born in Mutki/Bitlis in 1969, Mr. Göktaş graduated from the Department of Business Administration, Faculty of Political Sciences at Ankara University. He served as an Auditor on the Board of Auditors of Garanti Bank between 1992-1997 before assuming the positions of Assistant Manager at the İstanbul Corporate Branch between 1997-1999 and Manager of the Çorum Branch between 1999-2000. He worked as the Manager of Banking Services at the Anadolu Finans Institution between 2001-2005. He served as the Banking Services Manager at Türkiye Finans Participation Bank between 2006-2009, the executive vice president responsible for information technologies between 2009-2012 and as the executive vice president responsible for Delivery and Service Channels between 2012-2015. Mr. Göktaş has been a serving member of the Board of Directors and the CEO of Vakıf Participation since October 2015.

Ali GÜNEY
Executive Vice President
Born in Rize in 1964, Mr. Güney graduated from the Faculty of Economics and Administrative Sciences at Marmara University. He worked at the Funds Management Department of Faisal Finans between 1990-1993 before serving as the Assistant Manager at the Funds Management and Treasury Department of İhlas Finans between 1995 1999. After assuming the position of Funds Management and Treasury Department Manager between 1999-2005 in the Anadolu Finans Institution, he served as the Treasury Department Manager in Türkiye Finans Participation Bank between 2006-2009. He was the Executive Vice President responsible for the Treasury in Türkiye Finans Participation Bank between 2009-2015 and has been serving as the Executive Vice President responsible for Treasury and International Banking at the Vakıf Participation Bank since November 1, 2015. Mr. Güney is married with two children.

Ahmet OCAK
Executive Vice President
Born in the Kuşdoğan Village of Ünye in Ordu in 1965, Mr. Ocak graduated from the Business Administration Department at Anadolu University OEF in 1991 and completed a master's degree in Management in Fatih University Social Sciences Institute (non-thesis, in Turkish) in 2012.

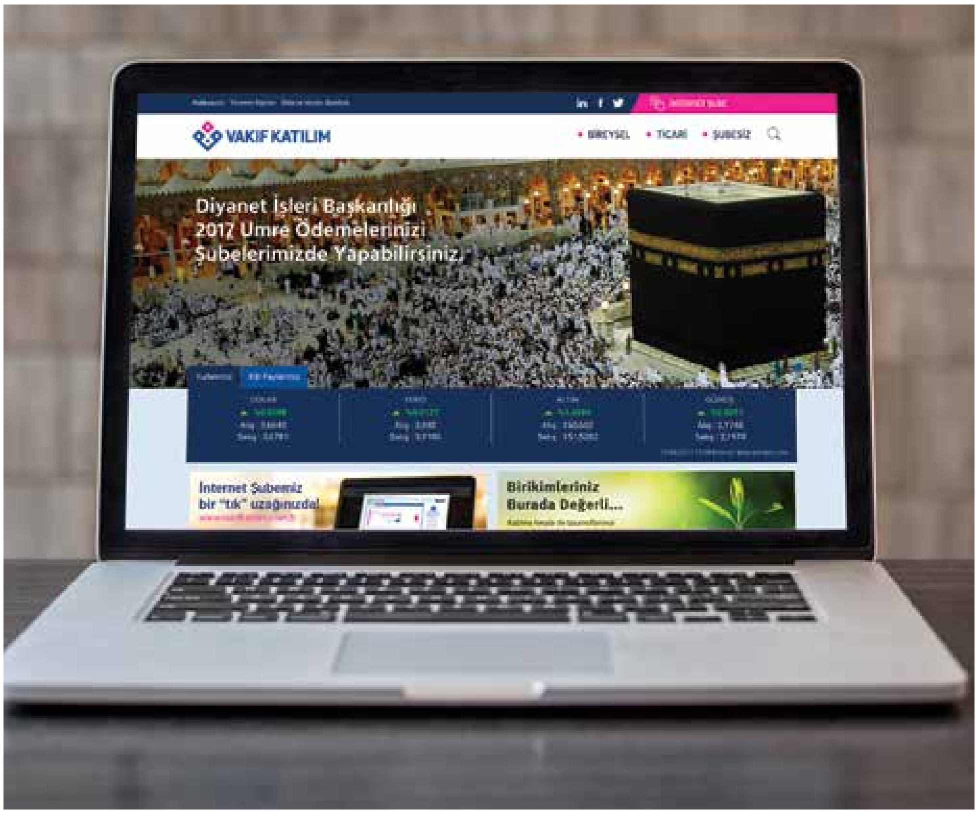
Mr. Ocak worked as accounting supervisor and manager in the private sector between 1983-1990. He worked at the Albaraka Türk Participation Bank (formerly Albaraka Türk Private Finance Institution) for 25 years in the roles of Manager in the Kayseri Branch between 1990-1991, Assistant Manager in the Ankara Branch between 1992-1995, Assistant Manager in the Konya Branch between 1995-1996, Assistant Unit Manager/Unit Administrator in the Finance department between 1996-2001, the Head of the Internal Audit between 2001-2002, Unit Manager/Senior Unit Manager in the Financial Affairs Department between 2003-2012, Budget and Financial Reporting Manager (acting as principal), Senior Unit Manager in the Investment Projects Unit (acting as an agent) between 2012-2014 and as Senior Unit Manager in the Investment Projects Unit between 2014-2015. He worked as the CEO in Albaraka Real Estate Portfolio Management in 2015.

Ahmet Ocak started to work in Vakıf Participation as the CFO on December 1, 2015. Mr. Ocak is married with one child.

İrfan ŞAVİK
Executive Vice President
Mr. Şavik was born in Antalya in 1965. He graduated from the Public Administration Department, Faculty of Economics and Administrative Sciences at Hacettepe University. İrfan Şavik worked as an Assistant Financial Analyst, Financial Analyst and Assistant Manager in Vakıf Bank between 1990-1998. He worked in the same bank with Branch Manager roles in various branches, and as Regional Manager between 1998-2015. Mr. Şavik has been serving Vakıf Participation as the Executive Vice President responsible for Credit and Human Resources since December 1, 2015. Mr. Şavik is married with three children.

Sait AYTAÇ
Executive Vice President
Mr. Aytaç was born in Elazığ in 1971, and completed primary school, secondary school and high school in Elazığ before going on to graduate from the Department of Politics and International Relations at the Faculty of Economics and Administrative Sciences in Boğaziçi University in 1993.
He started his professional life as an Assistant Specialist Project-Marketing Department of Albaraka Türk in 1993. After working there for 2 years, he worked as a Project Marketing specialist at the İhlas Finance Institution for 2 years before working in Toprakbank as a Branch Marketing Administrator for 2 years and a Branch Manager for 3 years. He then worked as a Branch Manager in Türkiye Finans Participation Bank for 4 years, as a Regional Manager for 2 years and as a Unit Manager responsible for branches and the Sales Performance of branches and the regions for 6 years.

Sait Aytaç has been working in Vakıf Participation as Executive Vice President responsible for Marketing and Operations since November 9, 2015. Mr. Aytaç is married with three children.




VAKIF KATILIM
VMATIK
VAKIF KATILIM
Lütfen İşlem Seçiminizi Yapınız
Para Çekme
Bakiye Sorma
Para Transferi
Ödemeler
Para Yatırma
Döviz İşlemleri
Kredi Kartı İşlemleri
Diğer İşlemler


VAKIF KATILIM

Products, technology and innovations at Vakıf Participation

The Online Branch
Within the scope of the process of digitalization, which has been taking place around the whole world, efforts regarding Alternative Distribution Channels, which became important for banking, have always been at the forefront for Vakıf Participation. Accordingly, in parallel with the start of our operations on February 26, 2016, Vakıf Participation's Online Branch was opened to the service of our customers and rapidly entered service.

Mobile Branch
Efforts were initiated in the area of the Mobile Branch after our online branch was brought into use. Our Mobile Branch applications were rapidly put into use on Android and IOS platforms and offered to the use customers.

Usage rates of our Alternative Distribution Channels (ADC) in 2016 are presented below:

- 53% of cash withdrawal transactions and 18% of cash deposit transactions were carried out via the ATM channel.
- 40% of foreign exchange trading transactions were made via ADC.
- 78% of bill payment transactions were carried out via ADC.
- 33% of money transfer transactions (EFT-Money Order) were realized via ADC.
- 22% of our total customers are ADC users.
- 80% of our customers in the Online Branch actively use this channel.
- 81% of our customers in the Mobile Branch actively use this channel.

Digital Signage Project
Digital solutions have been developed since our operations were started to prevent waste of paper and to relieve the operational burden regarding promotions of products and services offered by Vakıf Participation. The Digital Signage Application was put into use across all branches accordingly, the promotion of products and services and foreign currency information are shown on screens located in branches and branch windows.

Corporate Website
Our corporate website at www.vakifkatilim.com.tr, developed on SharePoint infrastructure and designed to be mobile compatible considering user experiences, was set up.


Common past
common future
We are the voice, breath and aspiration of these lands. We are a huge family who appreciates what we have. We are growing rapidly with our new branches and moving forward together.
VAKIF KATILIM
Common past, common future.
0850 202 1 202 | vakifkatilim.com.tr

"We are delighted and excited to have completed the year 2016, which marked the first anniversary of our establishment, with such success"

Osman ARSLAN
General Manager-Ziraat Participation

Ziraat Participation achieved rapid growth in 2016 by concentrating on the financing of the real sector, in line with its goal of creating value for all stakeholders and society, not just for its customers and shareholders.

We are delighted and excited at Ziraat Participation, our country's first publicly funded participation bank, to have successfully completed the year 2016, when we celebrated the first anniversary of our establishment.

Like our country, Ziraat Participation achieved great success in 2016, which proved a challenging year due to the geopolitical developments in our region, the volatility in the world economy and the extraordinary developments experienced in our country. In 2016, our total assets tripled on a YoY basis to reach TL 8 billion.

We have provided an increasing level of financial support for the country's economy.
Ziraat Participation achieved rapid growth in 2016 by concentrating on the financing of the real sector, in line with its goal of creating value for all stakeholders and society, not just for its customers and shareholders. It reached cash financing of TL 5.5 billion, achieving a growth rate of 229%; in non-cash financing, it reached TL 3.5 billion, achieving a growth rate of 778%, while providing TL 9 billion of financing support to the real sector. When we take into consideration the amounts that were closed due to arriving maturity, the financial support that we have provided to our country's economy reached TL 12 billion.

Ziraat Participation will continue to support the Turkish economy and the real sector in particular, with the 70% cash-financing share in its balance sheet. As of the end of 2016, the total current and participation accounts had increased by 349% YoY to TL 5.6 billion. Within the framework of increasing and expanding the diversity of resources, funds were provided from domestic and foreign banks; and in this context, the first Murabaha syndication of USD 155 million was successfully completed with the participation of international banks.

In addition, we issued our first Sukuk amounting to TL 100 million through Ziraat Katılım Varlık Kiralama A.Ş., which we established during this year, and the Sukuk was renewed three times on the redemption dates.

As a result of the services that we offer within the framework of sustainability and efficiency with our approach that attaches priority to customer satisfaction, we were able to generate a profit in our first year despite our ongoing establishment and growth investments, and we completed the year 2016 with a net profit of TL 30.7 million.

Ziraat Participation's overall customer portfolio is largely composed of customers who are also working with conventional banks and who have started actively using participation banking products through Ziraat Participation. This shows that we have been successful in our goal of expanding participation banking and reaching all segments of society.

We contribute to participation banking with our new products.
Within the scope of developing new product efforts to contribute to the development of participation banking, we implemented our first profit-loss partnership project in 2016. In order to enable SMEs to access to low-cost financing, we offered World Bank funds to SMEs. With the CGF surety system, we also helped those SMEs experiencing guarantee problems to access financing.

We introduced our new individual product to customers, the Financing Limited Card, which complies with the principles of participation banking. The Financing Limited Card offers customers the opportunity to pay in a certain number of instalments (2-48 months) as defined at the time of application, for all purchases from furniture to white goods, weddings and education.

With the State subsidized Housing Account and the State subsidized Dowry Account, we offered our state aided products to our customers to increase the savings of consumers before financing the individual needs.

We stand with our customers through the branches as well as and non-branch channels.
In 2016, we added 22 new customer focused branches, taking our total to 44 branches covering the areas, which account for more than 70% of the national GDP, further expanding our geographical spread. In 2016, we offered customers the opportunity to open accounts over the Internet within the scope of the Branchless Banking services. Also, within the framework of correspondence agreement with Ziraat Bank, our customers were able to reach Ziraat

Participation from all Ziraat Bank branches and ATMs.

Having set up our website, which allows our customers to perform their banking transactions easily, we put the mobile banking application into use in 2016. With the "Participation Mobile", customers could access Ziraat Participation products and services at all times of the day without going to the branch.

We believe supporting our staff with continuous training is vital for the development of participation banking. In this context, we organized the "Islamic Economy and Participation Banking Certificate Program" in cooperation with İstanbul Sabahattin Zaim University. Together with all our employees, we work with faith and dedication to successfully represent the Ziraat Finans Group's brand power and culture in the participatory banking sector and to elevate the tradition of participation banking to even stronger grounds.

In line with becoming a leader and a respectable participation bank, we will continue to create value for all of our stakeholders with our principle of "Growth through sharing". I would like to thank our shareholders, customers, business partners and employees, whose support we have always felt to be with us in this process.

Ziraat Katılım Bankası A.Ş.	Ziraat Katılım
Establishment Date	2015
Main Shareholders*	T.C. Ziraat Bankası A.Ş. (99%)
Chairman	Hüseyin AYDIN
General Manager	Osman ARSLAN
Headquarters	Hobyar Eminönü Mah. Hayri Efendi Cad. No: 12 PK: 34112 Fatih/İstanbul/Turkey
Phone/Fax	+90 212 404 10 00/ +90 212 404 10 80
Web Site	www.ziraatkatilim.com.tr
SWIFT Code	ZKBATRIS
EFT Code	209
Number of Domestic Branches	44
Number of Branches Abroad	-
Number of Representative Offices Abroad	-
Financial Subsidiaries Abroad	-
Number of Employees	664

*The Bank's shareholders with an interest of 10% and above, their shares and the percentage of publicly held shares.

Ziraat Participation Senior Management

Osman ARSLAN
Board Member and CEO
Born in 1971 in Ankara, Osman Arslan graduated from the Statistics Department of the Middle East Technical University Science and Literature Faculty. He completed his postgraduate degree at the Economics and Administrative Sciences at the same university. Arslan, who began working at Ziraat Bank in 1995, held management positions at a variety of private sector banks between 1998-2004.

Between 2004-2012, he continued his career as Department Manager, Head of Department and Deputy Chief Executive in turn at Halkbank, then as Chief Executive at Arap Türk Bank. In March 2012, he took up the position of Deputy Chief Executive responsible for Financial Management at Ziraat Bank and from January 2013 became the Deputy Chief Executive for International Banking and Partnerships and Deputy General Manager of Information Technologies Management in August 2014; then on February 18, 2015 was appointed as Founding Chief Executive of Ziraat Participation.

Mustafa AKIN
Executive Vice President - Marketing
Born in 1963 in Erzincan, Mustafa Akın graduated from the Department of Economics at Anadolu University's Faculty of Economics and Administrative Sciences. Mr. Akın started working at Pamukbank in 1986, before moving to Halkbank, where he was a manager in various departments; he then came to Ziraat Bank in December 2011 as Corporate Loans Group President, later acting as Group President for the Supply and Management of Retail Loans.

On February 18, 2015, he was appointed Loan Facility and Management Deputy General Manager at Ziraat Participation. He has been working as the Deputy General Manager responsible for Coordination at our Bank since February 12, 2016.

Tahir DEMİRKIRAN
Executive Vice President - Loan Allocation and Management
Born in 1967 in İstanbul, Tahir Demirkıran graduated from İstanbul University Faculty of Economics, Department of Economics. He started his banking career as the Assistant Financial Analysis and Intelligence Specialist at Pamukbank in 1995. He worked as the Specialist and Loans Service Director. And then, having worked as the Department Director of Financial Analysis and Loans and Commercial Branch Director and Head of Commercial Loans Department at Halkbank; and Member of the Board of Directors at Halk Leasing; Demirkıran became the Retail Loans Allocation and Management Group Manager at Ziraat Bank in 2015. On February 12, 2016, he was appointed as the Loans Allocation and Management Deputy General Manager at Ziraat Participation.

Hakan AYDOĞAN
Executive Vice President - Financial Coordination and Human Resources
Born in 1979 in Ankara, Hakan Aydoğan graduated from Middle East Technical University's Department of Political Science and Public Administration. Beginning as an Inspector at Halkbank in 2004, Mr. Aydoğan worked as a manager in the Commercial Loans Department Management and at various branches in 2009. In 2013, he was appointed manager in the Foreign Transactions Operations Department. On February 18, 2015, he was appointed Marketing Deputy General Manager at Ziraat Participation.

Products, technology and innovations at Ziraat Participation

Ziraat Participation continues its activities aimed at setting itself apart as a participation bank with the aim of growing together with individuals and enterprises by being involved in projects that will increase the contribution of individuals and enterprises to the Turkish economy with the right financial solutions in line with principles of participation banking.

As a member of Ziraat Finance Group, Ziraat Participation offers its customers the use of more than 6,000 Ziraat Bank ATMs and 1,800 Ziraat Bank branches to deposit and withdraw money. Ziraat Participation listens to its customers in all conditions and works to a main philosophy of offering specific solutions. Ziraat Participation not only operates for its customers and shareholders but also to create value for the society and all stakeholders.

Aiming to meet customer expectations by providing the right products and services in a timely manner, Ziraat Participation took important steps in attracting individual customers in 2016 and achieved a successful performance.

Within the framework of participation banking principles, Ziraat Participation continues to support its customers and to meet the needs of customers 7 days a week, 24 hours a day with the most appropriate solutions and through the most appropriate channels such as the branches, ATMs, the Internet and Mobile Banking applications and the Call Centre.

The Financing Limited Card
The individual Financing Limited Card product was offered to customers.

Ziraat Participation began to offer State subsidized Dowry (Çeyiz) Participation Account, Housing Account and Investment Fund products to customers.

Besides Social Security Institution (SSI) Income/Monthly Payments, the Bank completed protocol processes at many different institutions. By doing so, Ziraat Participation began to carry out the banking operations of its customers.

Ziraat Participation, which also increased the number of contracted housing projects and the Bank, began to meet the financing needs of its customers from the related projects.

Cash Register POS
Continued to enter physical POS (point of sale machine) allocation agreements with business establishments and began to sign contracts with cash register POS/payment registers companies. Ziraat Participation increased the rate of rollout in the allocation of physical POS and cash register POS/payment registers.

Correspondent Banking
Within the scope of the "Correspondent Banking" project, anyone who wants to become a Ziraat Participation customer can open a Ziraat Participation account through any Ziraat Bank branch and apply for a Ziraat Participation Bank Card. Users of the Bank card are also able to inquire their balance and withdraw money from any Ziraat Bank ATM free of charge.

In 2017, the Ziraat Participation:
- Physical POS will continue to be distributed in the allocation of cash register POS/payment registers, while the member businesses will be offered the Virtual POS product.
- Work on the Legal Financing Limited Card product, which aims to meet the financing needs of legal customers and on the Ziraat Participation Credit Card product for individual customers, will continue.
- The Quick Bank Card product, which provides immediate card allocation from the branches, will be rolled out more widely in the field.

Profit-Loss Partnership Project
As a result of systematic efforts carried out in 2016, Ziraat Participation reached customers in many regions of the country in the corporate and entrepreneurial segments and established strong cooperation with its customers by providing appropriate solutions for their different needs.

Aiming to bring a breath of fresh air to the sector, Ziraat Participation implemented the first profit-loss partnership project by bringing existing applications to a new sector in 2016.

The disbursement of World Bank originated funds
As Turkey's first publicly funded participation bank, Ziraat Participation began the disbursement of World Bank originated funds in line with efforts carried out to provide SMEs with access to low-cost financing.

Within the scope of Türkiye İhracat Kredileri Bankası A.Ş. (Export Credits Bank of Turkey) originated credits, in 2016, disbursements were made in USD terms under the heading of Pre-shipment Export Credit (PSC).

Ziraat Participation plans the following in 2017:
- To continue to implement its practices in different sectors with profit-loss partnerships,
- To carry out disbursements under the Portfolio Guarantee System in addition to equity and Treasury-backed disbursements by renewing the contract entered into with the Credit Guarantee Fund which has the stated aim of supporting SMEs,
- To carry out disbursements of Pre-shipment Export Credits in EUR and TL terms as well as US dollar terms.

The Sale of Investment (Mutual) Funds to Customers
The sale of investment funds of Treasury Operations and Commercial Marketing with the coordination of Treasury Management started in 2016. An opinion concerning these funds' compliance with interest free and participation banking principles was received. In addition, in accordance with the principles of participation banking, the activities for the sale of investment (mutual) funds to customers were completed and in this context, the related funds started to be sold to customers in 2016.

SSI premiums
Within the scope of the protocol signed with the Social Security Institution (SSI) and our Bank, the required studies were completed and as of January 6, 2016, SSI premiums started to be carried out through the Bank channel.

SSI Pension Payments
As of April 17, 2016, SSI Pension Payments started to be carried out through the Bank.

Cheque with QR Code
Studies on the "Cheque with QR Code", carried out in coordination with the Credit Registration Bureau (CRB) and which will provide significant support to the operation and security of our country's cheque market, were completed and customers started to receive Cheque with QR Code.

Customs Duty Payments
Certification tests for customs duty collections were completed and as a result of the tests conducted with the Revenue Administration Department, customs duty payments could be collected through the Bank channel.

Bill Payments
Certification tests were completed and bill payments for Türk Telekom, Vodafone and Turkcell started to be conducted through the Bank.

Similarly, certification tests were completed and bill payments for İGDAŞ, Türksat, Dicle Electricity, Meram Electricity, KOSKİ and Aksaray Water started to be conducted through the Bank.

Hajj and Umrah Payments
Certification tests were completed and the Bank started to process hajj and umrah payments.

Instant Account Opening
Our Online Banking Branch has been serving our customers since May 29, 2015, the date of our establishment. Current transaction sets enable our customers to meet their banking needs without needing to go to the branch.

Within the scope of Branchless Banking Services, the project for customer formation/account opening over the web was opened for use in 2016. Moreover, with the Central Banking Branch, banking services were provided to customers through non-Branch channels.

Mobile Banking Branch: Participation Mobile
The Ziraat Participation Mobile Banking application was made available to our customers for iOS (Apple) and Android operating system users with the "Participation Mobile" brand. Ziraat Participation offers services to its customers in the fields of retail and corporate banking with its experienced staff, effective distribution channels, digital platforms and high technological infrastructure.

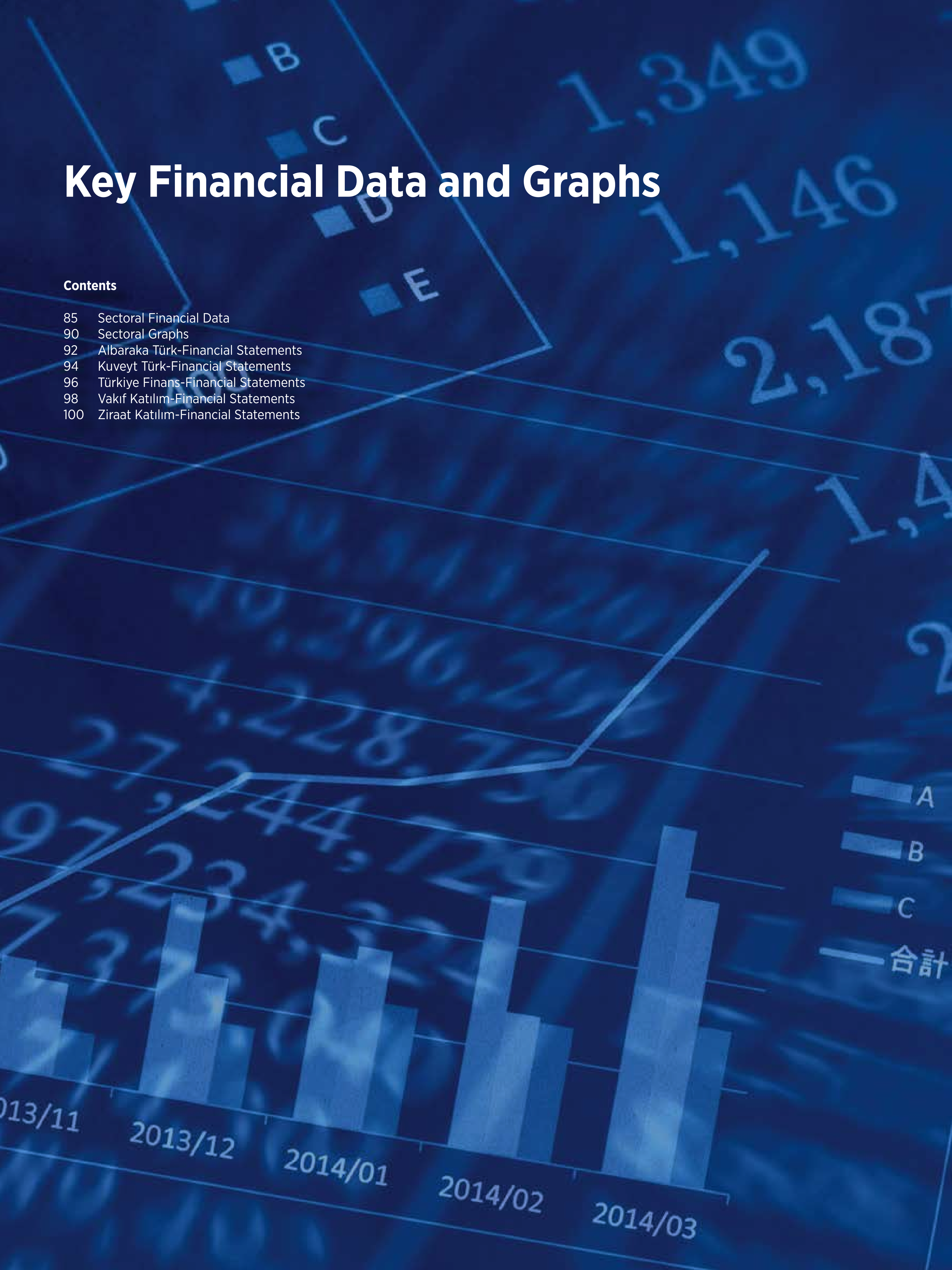
Ziraat Participation provides uninterrupted service to its customers 7 days a week 24 hours a day through ATMs, Internet and Mobile Banking branches and the Customer Contact Center. A number of projects in the field of mobile banking and a Digital Road Map will be implemented in 2017, with an uninterrupted service channel and products to be added to Ziraat Participation's services.

Effie Awards for our commercials
Commercials entitled "To Share, Wealth and Capital" were shown in 2015 during the launch activities during the initiation of Ziraat Participation's activities.

Ziraat Participation was rewarded with Silver Award on the category Bank and Card Payment Systems In 2016 Effie Turkey, where the Golden Award is not given, with its launch campaign named "What is sharing?".

Key Financial Data and Graphs

Contents



The participation banks, which support the real sector and play a key role in the economic development of our country, strengthen their position as indispensable players of the financial system. The participation banks represents 5.6% of total banking sector funds collected and 4.8% of funds allocated.

Turkish Banking Sector's Indicators by Segments

		Assets			Deposits			Loans		
Bank	**Number of Institutions**	**2016 TL million**	**2016 share (%)**	**2015 share (%)**	**2016 TL million**	**2016 share (%)**	**2015 share (%)**	**2016 TL million**	**2016 share (%)**	**2015 share (%)**
Participation Banks	5	132,874	4.9	5.1	81,487	5.6	5.9	84,880	4.8	5.2
Deposit Banks	34	2,455,366	89.9	90.4	1,377,763	94.4	94.1	1,587,245	89.4	89.8
Development and Investment Banks	13	142,807	5.2	4.5	-	-	-	101,621	5.7	5.0
Total	52	2,731,046	100	100	1,459,250	100	100	1,773,746	100	100

Source: BRSA

Participation Banks and Banking Sector: Key Financial Indicators (TL million) (December 2016)

		Participation Banks			Banking Sector		
Financial Highlights		**2016**	**2015**	**2016/2015 Change (%)**	**2016**	**2015**	**2016/2015 Change (%)**
Deposits*	TL	48,313	40,740	18.6	849,493	719,120	18.1
	FC	29,984	31,406	(4.5)	592,258	519,845	13.9
	FC-Metal	3,208	2,216	44.8	17,518	11,051	58.5
	Total	81,505	74,362	9.6	1,459,269	1,250,016	16.7
Loans**		84,880	79,191	7.2	1,773,745	1,513,969	17.2
Non-Performing Loans (Net)		1,236	1,775	(30.4)	13,128	12,082	8.7
Total Assets		132,874	120,252	10.5	2,730,942	2,357,522	15.8
Shareholders' Equity		11,494	10,642	8.0	300,172	262,271	14.5
Net Profit***		1,106	409	170.4	37,532	26,052	44.1
Number of Employees		14,465	16,554	(12.6)	210,910	217,504	(3.0)
Number of Branches	Branches Domestic	956	1,076	(11.2)	11,664	12,185	(4.3)
	Branches Abroad	3	4	(25.0)	83	84	(1.2)
	Total	959	1,080	(11.2)	11,747	12,269	(4.3)

Source: BRSA reports

* Bank deposits are excluded. Rediscounts are included.

** Loans under follow-up are excluded. Rediscounts are included.

*** Net profit figures compared to the same period of last year.

Participation Banks: Asset Structure and Changes in Selected Items

Assets	Amount (TL million)			Change (%)		Share in Total (%)		
	2016	2015	2014	2016-2015	2015-2014	2016	2015	2014
Liquid Assets	18,507	14,697	12,416	26	18	14	12	12
Securities Portfolio	10,399	7,508	6,738	39	11	8	6	6
Available-for-Sale Assets (Net)	8,987	5,905	5,424	52	9	7	5	5
Held-To-Maturity Assets (Net)	1,412	1,603	1,314	(12)	22	1	1	1
Loans	75,896	72,038	64,065	5	12	56	58	60
Non-Performing Loans (Gross)	3,262	4,335	3,190	(25)	36	2	3	3
(-) Special Reserves	2,026	2,560	1,991	(21)	29	1	2	2
Leasing Receivables (Net)	4,122	5,916	3,003	(30)	97	3	5	3
Non-Current Assets	2,236	2,298	2,051	(3)	12	2	2	2
Affiliates and Subsidiaries	403	669	487	(40)	37	0	1	0
Fixed Assets	1,833	1,629	1,564	13	4	1	1	1
Rediscounts	5,433	3,674	2,637	48	39	4	3	2
Other Assets	1,773	1,860	1,334	(5)	39	1	1	1
Total Assets	132,874	124,692	106,214	9	17	100	100	100

Source: BRSA

Participation Banks: Liabilities Structure and Changes in Selected Items

Liabilities	Amount (TL million)			Change (%)		Share in Total (%)		
	2016	2015	2014	2016-2015	2015-2014	2016	2015	2014
Deposits	81,273	74,176	65,230	10	14	61	62	63
TL	48,120	40,590	38,838	19	5	36	34	37
FC	33,152	33,586	26,392	(1)	27	25	28	25
Loans to Banks	16,346	14,241	14,916	15	(5)	12	12	14
Rediscounts	1,079	873	404	24	116	1	1	0
Shareholders' Equity	11,493	10,645	9,610	8	11	9	9	9
Paid-in Capital	7,839	7,602	6,687	3	14	6	6	6
Capital Reserves	2,177	3,085	2,451	(29)	26	2	3	2
Prior Years' Profits	88	(940)	95	(109)	(1089)	0	(1)	0
Period Profit	1,106	409	80	170	411	1	0	0
Others	283	489	297	(42)	65	0	0	0
Other Liabilities	14,173	11,884	8,725	19	36	11	10	8
Total	132,776	120,183	104,163	10	15	100	100	100

Source: BRSA

Participation Banks: Income/Loss Structure and Changes in Selected Items (TL million, %)

Income/Loss	Amount (TL million)			Change (%)		Rate Over Net Income/Loss Before Tax (%)		
	2016	2015	2014	2016-2015	2015-2014	2016	2015	2014
Profit Share Income	8,371	7,536	6,526	11	15	614	1.080	1.886
Profit Share Expense	4,318	3,780	3,346	14	13	317	542	967
Net Profit Share Income	4,053	3,756	3,180	8	18	297	538	919
Income Other Than Profit Share	2,046	2,321	2,598	(12)	(11)	150	333	751
Net Fees and Commissions Income	796	832	799	(4)	4	58	119	231
Banking Services Income	562	633	670	(11)	(6)	41	91	194
Other Income Other Than Profit Share	688	856	1,129	(20)	(24)	50	123	326
Expenses Other Than Profit Share	3,647	4,103	3,656	(11)	12	267	588	1.057
Personnel	1,439	1,490	1,410	(3)	6	105	213	408
Fees and Commissions Expenses	369	377	331	(2)	14	27	54	96
Other Expenses Other Than Profit Share	1,839	2,236	1,915	(18)	17	135	320	553
Income/Expenses Other Than Profit Share	463	233	188	99	24	34	33	54
P/L From Capital Market Transactions	382	176	72	117	144	28	25	21
Profit/Loss From FX Transactions	80	55	115	45	(52)	6	8	33
Others	1	2	1	-	-	0	0	0
Profit/Loss Before Tax	1,364	698	346	95	102	100	100	100
Tax Provisions	258	289	265	(11)	9	19	41	19
Net Profit/Loss	1,106	409	80	170	411	81	58	81

Source: BRSA

Participation Banks vs Banking Sector: Comparison Between Selected Ratios

Description	Participation Banks			Banking Sector		
	2016	2015	2014	2016	2015	2014
Non-Performing Loans (Gross)/Total Cash Loans (%)	3.9	5.4	4.5	3.2	3.1	2.9
Provisions for Non-Performing Loans/Non-Performing Loans (Gross) (%)	62.1	59.1	62.4	77.4	74.6	73.9
Large Deposits (TL 1 million and Above)/Total Deposits (%)	37.7	36.6	34.3	53.3	52.2	50.7
Profit/Loss Before Tax/Average Total Assets (ROAA) (%)	1.1	0.6	0.4	1.9	1.5	1.7
Net Profit/Loss/Average Shareholders' Equity (ROAE) (%)	0.9	4.1	0.9	14.3	11.3	12.2
Net Profit Share Income/Loss/Average Total Assets (%)	3.3	3.3	0.1	3.6	3.5	3.5
Fees, Commissions and Banking Services Income/Average Total Assets (%)	1.1	1.3	1.5	1.2	1.3	1.4
Fees, Commission and Banking Services Income/Total Income (%)	12.4	14.3	15.6	12.1	13.0	14.0
Operational Expenses/Average Total Assets (%)	2.2	2.5	2.7	1.9	2.0	2.1
Income Other Than Profit Share/Expenses Other Than Profit Share (%)	96.0	95.7	90.2	98.9	99.4	98.5
Fees and Commissions Income/Operational Expenses (%)	49.9	51.2	55.2	63.6	63.4	65.8
Average Total Assets/Average Number of Employees (TL thousand)	8.531	6.954	5.818	11.760	10.286	8.611
Deposits/Average Number of Employees (TL thousand)	5.767	4.475	3.835	6.833	5.722	4.883
Profit/Loss Before Tax/Average Number of Employees (TL thousand)	96.77	42	20	222	152	146
Deposits/Number of Branches (TL thousand)	88.116	71.599	64.905	121.452	101.325	86.817
Loans/Number of Branches (TL thousand)	90.292	77.499	69.908	150.088	124.997	105.577
Number of Employees/Number of Branches (Person)	15	15	16	18	18	18
Total Cash Loans/Deposits (%)	102.4	108.2	107.7	123.6	123.3	121.6
Total Securities Portfolio/Deposits (%)	12.8	10.2	10.4	24.2	26.5	28.7
Demand Deposits/Total Deposits (%)	28.4	27.2	24.5	20.3	19.1	18.9
Shareholders' Equity/Total Risk-Weighted Items (Capital Adequacy Standard Ratio) (%)	16.2	14.5	14.5	15.6	15.6	16.3
Liabilities/Shareholders' Equity (%)	1043.1	1009.8	969.5	793.8	782.8	743.3

Source: BRSA

Participation Banks: Summary Balance Sheet - Assets (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Assets		**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	Cash and Balances with the Central Bank	3,012,202	17,710,988	20,723,190	2,230,439	15,782,754	18,013,193
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	82,000	219,170	301,170	27,307	130,710	158,017
III.	Banks	686,077	7,784,628	8,470,705	961,611	6,276,820	7,238,431
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	5,231,584	3,904,393	9,135,977	3,500,140	2,303,398	5,803,538
VI.	Loans and Receivables	70,105,405	14,253,730	84,359,135	63,044,317	10,069,267	73,113,584
VII.	Investments Held to Maturity (Net)	1,451,135	-	1,451,135	1,651,783	-	1,651,783
VIII.	Investments in Associates (Net)	4,719	-	4,719	4,719	-	4,719
IX.	Subsidiaries (Net)	355,163	-	355,163	304,662	-	304,662
X.	Joint Ventures (Net)	40,000	-	40,000	31,000	-	31,000
XI.	Lease Receivables (Net)	3,635,428	486,299	4,121,727	3,455,969	235,587	3,691,556
XII.	Derivative Financial Assets for Hedging Purposes	111,124	-	111,124	48,627	-	48,627
XIII.	Tangible Assets (Net)	1,704,127	880	1,705,007	1,507,181	1,431	1,508,612
XIV.	Intangible Assets (Net)	248,335	305	248,640	197,952	476	198,428
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	224,764	-	224,764	224,127	-	224,127
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	235,514	433	235,947	56,946	245	57,191
XVIII.	Other Assets	761,726	503,597	1,265,323	1,023,590	159,212	1,182,802
	Total Assets	87,912,284	44,864,566	132,776,850	78,270,370	34,959,900	113,230,270

Source: PBAT

Participation Banks: Summary Balance Sheet - Liabilities (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Liabilities		**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	Funds Collected	48,364,290	36,428,146	84,792,436	38,668,329	33,234,234	71,902,563
II.	Derivative Financial Liabilities Held for Trading	68,116	86,150	154,266	29,006	75,871	104,877
III.	Funds Borrowed	1,794,083	22,410,005	24,204,088	1,847,325	18,590,593	20,437,918
IV.	Borrowings From Money Markets	2,434,931	-	2,434,931	2,503,581	-	2,503,581
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	1,879,262	362,891	2,242,153	1,482,890	364,334	1,847,224
VII.	Other Liabilities	919,205	46,729	965,934	1,176,635	105,723	1,282,358
VIII.	Lease Payables	104,771	226	104,997	-	401,990	401,990
IX.	Derivative Financial Liabilities for Hedging Purposes	-	490,504	490,504	-	383,193	383,193
X.	Provisions	1,115,632	232,071	1,347,703	1,033,821	205,492	1,239,313
XI.	Tax Liability	157,730	3,315	161,045	176,814	2,763	179,577
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	4,383,083	4,383,083	-	2,562,314	2,562,314
XIV.	Shareholders' Equity	11,589,853	(94,143)	11,495,710	10,438,014	(52,652)	10,385,362
	Total Liabilities	68,427,873	64,348,977	132,776,850	57,356,415	55,873,855	113,230,270

Source: PBAT

Participation Banks: Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
A.	Off- Balance Sheet Commitments (I+II+III)	65,287,440	46,000,881	111,288,321	51,621,975	39,351,912	90,973,887
I.	Guarantees and Sureties	18,104,009	17,710,621	35,814,630	16,037,702	14,484,641	30,522,343
II.	Commitments	38,269,381	1,648,009	39,917,390	31,020,457	1,731,351	32,751,808
III.	Derivative Financial Instruments	8,914,050	26,642,251	35,556,301	4,563,816	23,135,920	27,699,736
B.	Custody and Pledged Items (IV+V+VI)	700,013,605	160,684,489	860,698,094	602,905,014	134,016,077	736,921,091
IV.	Items Held in Custody	13,890,089	5,477,953	19,368,042	21,297,178	6,600,138	27,897,316
V.	Pledged Items	686,111,877	155,095,019	841,206,896	581,596,197	127,328,941	708,925,138
VI.	Accepted Independent Guarantees and Warranties	11,639	111,517	123,156	11,639	86,998	98,637
	Total Off- Balance Sheet Accounts (A+B)	765,301,045	206,685,370	971,986,415	654,526,989	173,367,989	827,894,978

Source: PBAT

Participation Banks: Summary Statement of Income (TL thousand)

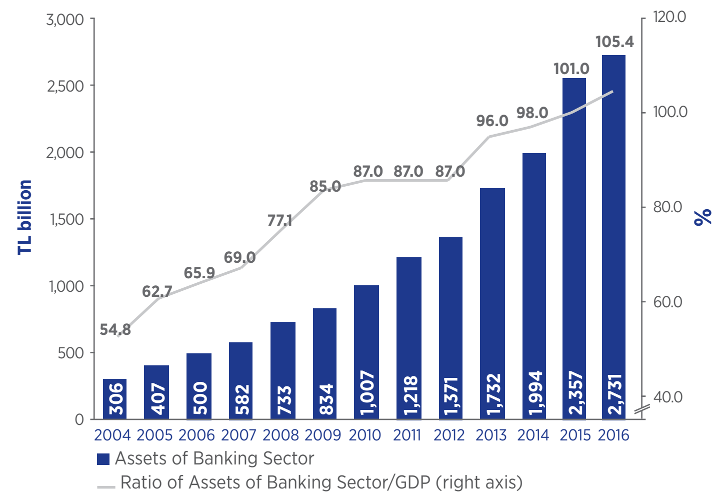
Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	8,842,269	7,376,736
II.	Profit Share Expense	4,330,754	3,539,464
III.	Net Profit Share Income/Loss (I - II) [I - II]	4,511,515	3,837,272
IV.	Net Fees and Commissions Income/Expenses	457,366	412,334
V.	Dividend Income	509	519
VI.	Trading Income/Loss (Net)	462,094	315,514
VII.	Other Operating Income	666,989	427,306
VIII.	Total Operating Income (III+IV+V+VI+VII)	6,098,473	4,992,945
IX.	Provision for Loan Losses and Other Receivables (-)	109,278	1,152,181
X.	Other Operating Expenses (-)	1,232,548	908,054
XI.	Net Operating Income/(Loss) (VIII-IX-X)	1,363,529	1,317,228
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	663,212	-
XIV.	Income/(Loss) on Net Monetary Position	(121,246)	-
XV.	Income/(Loss) From Continued Operations Before Taxes (XI+...+XIV)	1,242,283	1,317,228
XVI.	Tax Provision for Continued Operations (±)	(44,154)	98,058
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	563,541	1,049,318
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	541,966	-
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	1,008,222	1,049,318

Source: PBAT

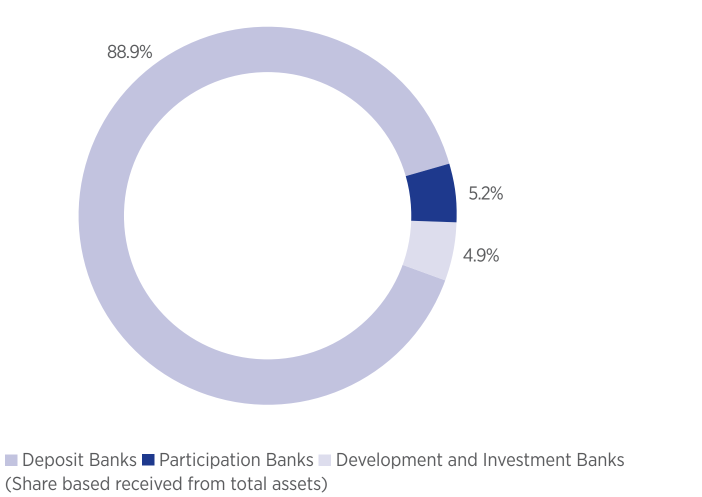
The participation banks' total asset size reached TL 123,776 million in 2016.

The funds collected by participation banks in the period of 2000-2016 showed an average yearly growth of 23% while funds allocated in the period of 2005-2016 recorded an average yearly growth of 25%.

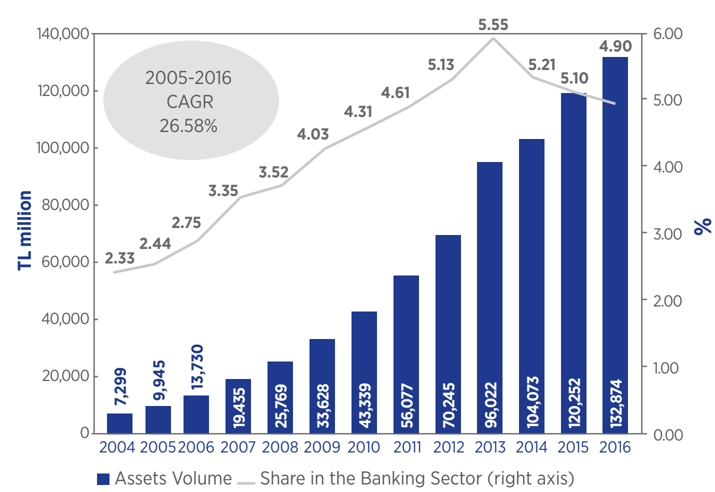
Turkish Banking Sector and Ratio to GDP



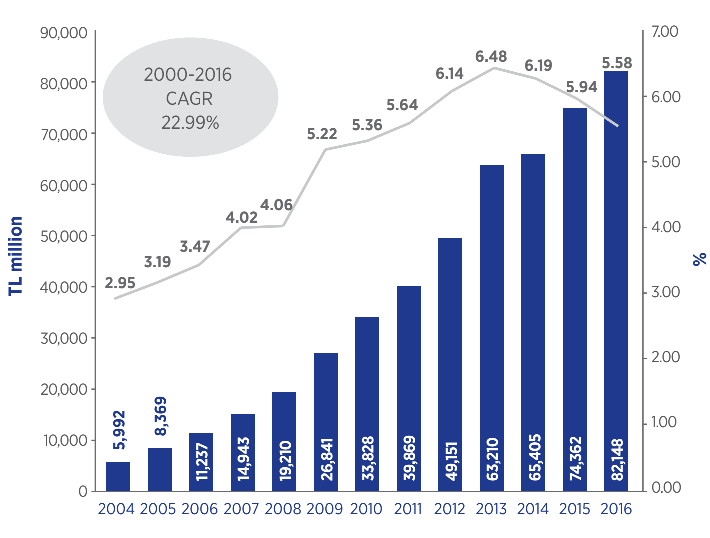
Shares in Asset in Turkish Banking Sector



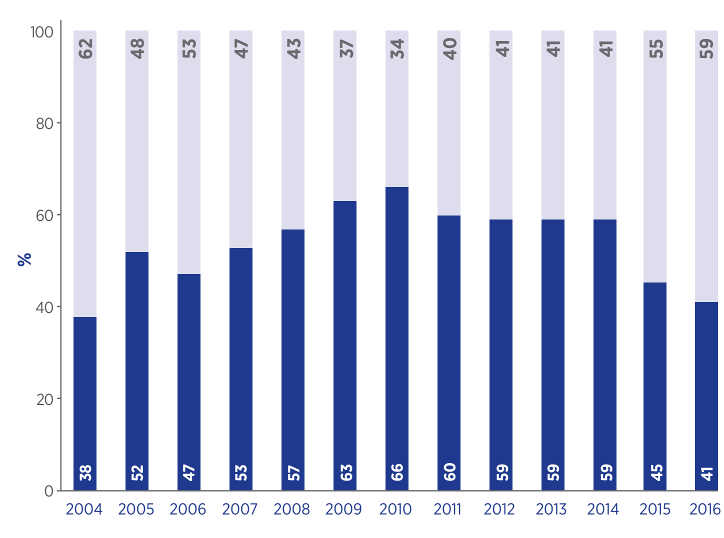
Development of Assets of Participation Banks and Shares in the Sector



Development of Funds Collected of Participation Banks

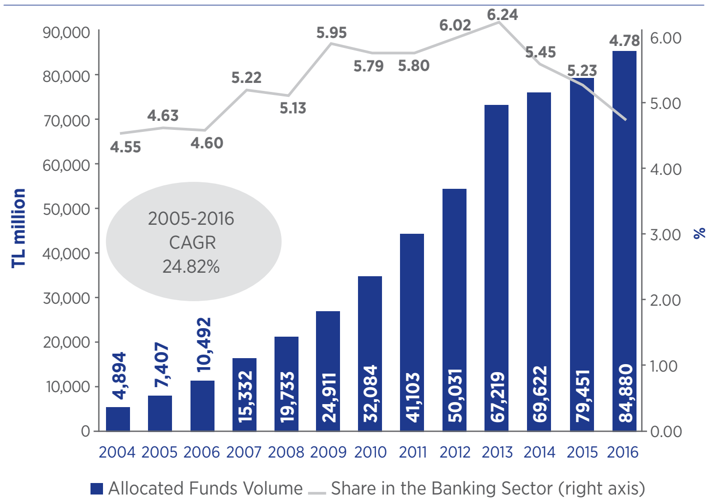


TL/FC Concentration of Funds Collected of Participation Banks

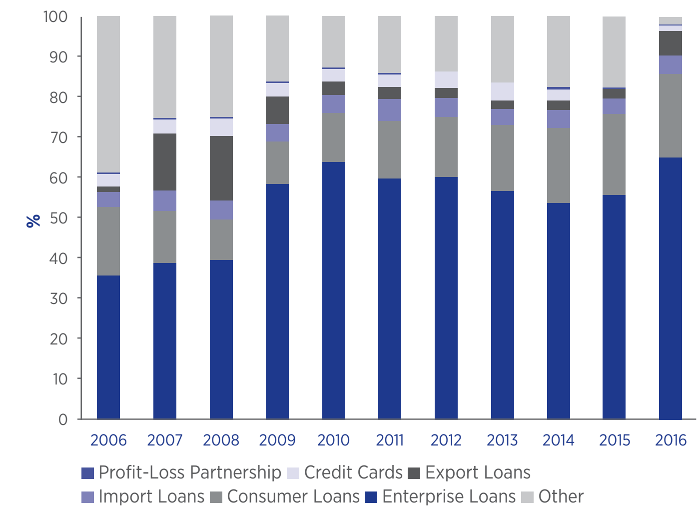


Source: PBAT, BRSA

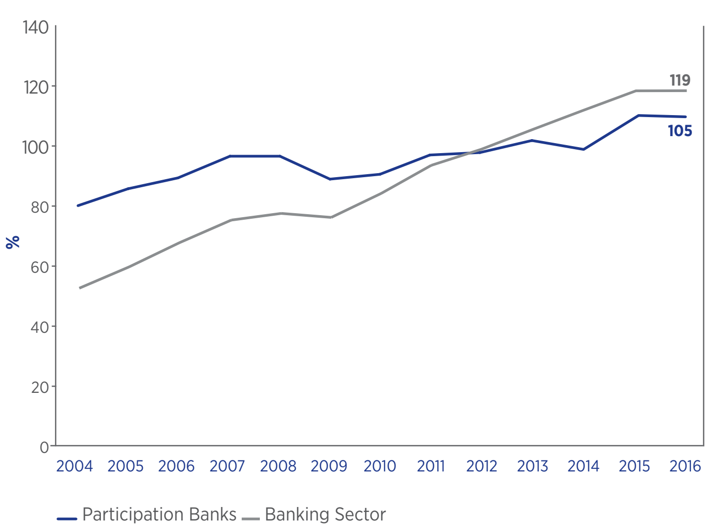
Development of Funds Allocated of Participation Banks



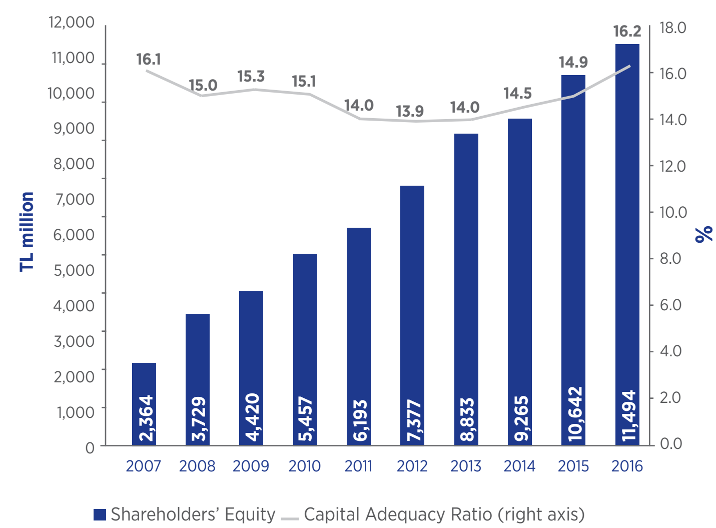
Concentration of Funds Allocated by Groups



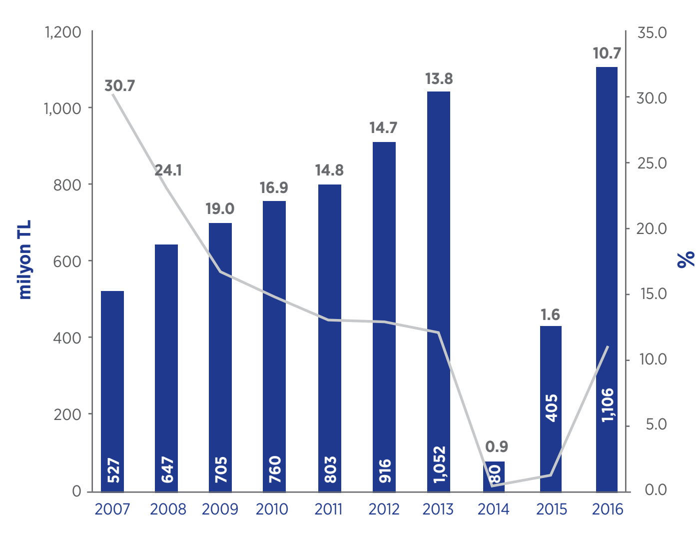
Ratio of Funds Allocated to Funds Collected (%)



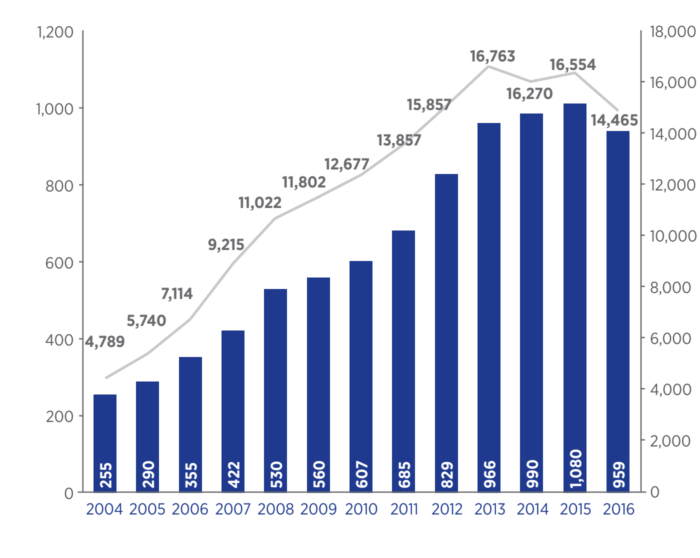
Development of Shareholders' Equity of Participation Banks



Development of Net Profit of Participation Banks



Development of Branches and Staff of Participation Banks



Source: PBAT, BRSA

Albaraka Türk Katılım Bankası A.Ş. Summary Balance Sheet - Assets (TL thousand)

Assets		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Cash and Balances with the Central Bank	940,247	4,058,805	4,999,052	894,204	4,010,594	4,904,798
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	1,022	65,074	66,096	1,427	20,856	22,283
III.	Banks	656,410	1,501,767	2,158,177	599,970	1,882,644	2,482,614
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	996,067	386,623	1,382,690	755,337	296,229	1,051,566
VI.	Loans and Receivables	17,448,650	4,394,425	21,843,075	15,352,083	3,205,882	18,557,965
VII.	Investments Held to Maturity (Net)	668,582	-	668,582	762,890	-	762,890
VIII.	Investments in Associates (Net)	4,719	-	4,719	4,719	-	4,719
IX.	Subsidiaries (Net)	5,400	-	5,400	5,250	-	5,250
X.	Joint Ventures (Net)	20,000	-	20,000	15,500	-	15,500
XI.	Lease Receivables (Net)	878,979	-	878,979	947,427	-	947,427
XII.	Derivative Financial Assets for Hedging Purposes	-	-	-	-	-	-
XIII.	Tangible Assets (Net)	516,340	791	517,131	499,803	1,336	501,139
XIV.	Intangible Assets (Net)	35,157	305	35,462	43,796	476	44,272
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	25,100	-	25,100	20,495	-	20,495
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	91,884	433	92,317	22,574	245	22,819
XVIII.	Other Assets	141,900	12,058	153,958	216,018	2,244	218,262
	Total Assets	22,430,457	10,420,281	32,850,738	20,141,493	9,420,506	29,561,999

Albaraka Türk Katılım Bankası A.Ş. Summary Balance Sheet - Liabilities (TL thousand)

Liabilities		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Funds Collected	12,557,143	10,597,991	23,155,134	11,336,176	9,010,002	20,346,178
II.	Derivative Financial Liabilities Held for Trading	88	-	88	-	-	-
III.	Funds Borrowed	181,593	4,242,602	4,424,195	-	4,104,688	4,104,688
IV.	Borrowings From Money Markets	492,784	-	492,784	770,959	-	770,959
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	634,215	68,144	702,359	633,312	53,074	686,386
VII.	Other Liabilities	-	-	-	-	-	-
VIII.	Lease Payables	-	-	-	-	-	-
IX.	Derivative Financial Liabilities for Hedging Purposes	-	-	-	-	-	-
X.	Provisions	191,485	42,364	233,849	216,049	35,810	251,859
XI.	Tax Liability	48,484	3,315	51,799	55,695	2,763	58,458
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	1,510,937	1,510,937	-	1,239,557	1,239,557
XIV.	Shareholders' Equity	2,288,359	(8,766)	2,279,593	2,097,426	6,488	2,103,914
	Total Liabilities	16,394,151	16,456,587	32,850,738	15,109,617	14,452,382	29,561,999

Albaraka Türk Katılım Bankası A.Ş. Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
A.	Off- Balance Sheet Commitments (I+II+III)	5,229,816	5,721,490	10,951,306	5,494,071	4,916,466	10,410,537
I.	Guarantees and Sureties	4,003,878	4,697,315	8,701,193	4,275,402	4,388,655	8,664,057
II.	Commitments	1,221,782	9,379	1,231,161	1,218,669	110,806	1,329,475
III.	Derivative Financial Instruments	4,156	1,014,796	1,018,952	-	417,005	417,005
B.	Custody and Pledged Items (IV+V+VI)	46,841,565	7,544,333	54,385,898	38,754,719	5,866,824	44,621,543
IV.	Items Held in Custody	1,598,038	1,363,315	2,961,353	1,671,504	932,158	2,603,662
V.	Pledged Items	45,243,527	6,181,018	51,424,545	37,083,215	4,934,666	42,017,881
VI.	Accepted Independent Guarantees and Warranties	-	-	-	-	-	-
	Total Off- Balance Sheet Accounts (A+B)	52,071,381	13,265,823	65,337,204	44,248,790	10,783,290	55,032,080

Albaraka Türk Katılım Bankası A.Ş. Summary Statement of Income (TL thousand)

Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	2,218,804	1,935,159
II.	Profit Share Expense	1,195,186	1,049,478
III.	Net Profit Share Income/Loss (I - II) [I - II]	1,023,618	885,681
IV.	Net Fees and Commissions Income/Expenses	145,935	135,997
V.	Dividend Income	-	519
VI.	Trading Income/Loss (Net)	45,139	52,570
VII.	Other Operating Income	157,511	113,407
VIII.	Total Operating Income (III+IV+V+VI+VII)	1,372,203	1,188,174
IX.	Provision for Loan Losses and Other Receivables (-)	372,157	157,143
X.	Other Operating Expenses (-)	736,126	654,253
XI.	Net Operating Income/(Loss) (VIII-IX-X)	263,920	376,778
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	-	-
XIV.	Income/(Loss) on Net Monetary Position	-	-
XV.	Income/(Loss) From Continued Operations Before Taxes (XI+...+XIV)	263,920	376,778
XVI.	Tax Provision for Continued Operations (±)	46,311	73,915
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	217,609	302,863
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	-	-
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	217,609	302,863

Kuveyt Türk Katılım Bankası A.Ş. Summary Balance Sheet - Assets (TL thousand)

Assets		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Cash and Balances with the Central Bank	695,627	7,607,425	8,303,052	662,376	6,906,439	7,568,815
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	40,311	125,663	165,974	12,302	76,312	88,614
III.	Banks	14,384	4,683,697	4,698,081	10,341	3,573,153	3,583,494
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	1,832,753	1,760,173	3,592,926	1,578,258	752,109	2,330,367
VI.	Loans and Receivables	23,266,913	5,145,528	28,412,441	21,565,734	4,285,266	25,851,000
VII.	Investments Held to Maturity (Net)	-	-	-	-	-	-
VIII.	Investments in Associates (Net)	-	-	-	-	-	-
IX.	Subsidiaries (Net)	349,513	-	349,513	299,312	-	299,312
X.	Joint Ventures (Net)	20,000	-	20,000	15,500	-	15,500
XI.	Lease Receivables (Net)	1,104,588	439,955	1,544,543	947,273	235,587	1,182,860
XII.	Derivative Financial Assets for Hedging Purposes	-	-	-	-	-	-
XIII.	Tangible Assets (Net)	439,544	89	439,633	503,954	95	504,049
XIV.	Intangible Assets (Net)	95,108	-	95,108	77,966	-	77,966
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	118,112	-	118,112	107,150	-	107,150
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	47,975	-	47,975	32,640	-	32,640
XVIII	Other Assets	254,825	434,772	689,597	312,330	98,410	410,740
	Total Assets	28,279,653	20,197,302	48,476,955	26,125,136	15,927,371	42,052,507

uveyt Türk Katılım Bankası A.Ş. Summary Balance Sheet - Liabilities (TL thousand)

Liabilities		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Funds Collected	17,943,622	13,958,141	31,901,763	14,536,125	13,586,541	28,122,666
II.	Derivative Financial Liabilities Held for Trading	40,580	79,147	119,727	9,962	61,561	71,523
III.	Funds Borrowed	647,994	7,388,827	8,036,821	684,076	6,827,603	7,511,679
IV.	Borrowings From Money Markets	1,219,873	-	1,219,873	711,542	-	711,542
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	133,001	24,963	157,964	108,349	10,629	118,978
VII.	Other Liabilities	375,840	23,611	399,451	424,538	30,070	454,608
VIII.	Lease Payables	-	226	226	-	401,990	401,990
IX.	Derivative Financial Liabilities for Hedging Purposes	-	137,829	137,829	-	98,650	98,650
X.	Provisions	455,533	126,207	581,740	427,561	104,614	532,175
XI.	Tax Liability	27,851	-	27,851	36,472	-	36,472
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	1,981,646	1,981,646	-	589,734	589,734
XIV.	Shareholders' Equity	3,942,411	-30,347	3,912,064	3,406,321	-3,831	3,402,490
	Total Liabilities	24,786,705	23,690,250	48,476,955	20,344,946	21,707,561	42,052,507

Kuveyt Türk Katılım Bankası A.Ş. Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
A.	Off- Balance Sheet Commitments (I+II+III)	45,504,238	19,739,186	65,243,424	33,843,259	16,528,787	50,372,046
I.	Guarantees and Sureties	5,177,182	4,711,605	9,888,787	4,637,394	4,318,928	8,956,322
II.	Commitments	34,594,651	711,955	35,306,606	27,214,987	481,365	27,696,352
III.	Derivative Financial Instruments	5,732,405	14,315,626	20,048,031	1,990,878	11,728,494	13,719,372
B.	Custody and Pledged Items (IV+V+VI)	205,775,245	106,164,950	311,940,195	168,473,267	89,309,104	257,782,371
IV.	Items Held in Custody	7,081,056	2,528,760	9,609,816	5,545,140	1,330,898	6,876,038
V.	Pledged Items	198,682,550	103,595,106	302,277,656	162,916,488	87,944,184	250,860,672
VI.	Accepted Independent Guarantees and Warranties	11,639	41,084	52,723	11,639	34,022	45,661
	Total Off- Balance Sheet Accounts (A+B)	251,279,483	125,904,136	377,183,619	202,316,526	105,837,891	308,154,417

Kuveyt Türk Katılım Bankası A.Ş. Summary Statement of Income (TL thousand)

Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	3,110,435	2,564,838
II.	Profit Share Expense	1,440,566	1,096,026
III.	Net Profit Share Income/Loss (I - II)[I - II]	1,669,869	1,468,812
IV.	Net Fees and Commissions Income/Expenses	152,970	133,942
V.	Dividend Income	509	-
VI.	Trading Income/Loss (Net)	275,772	178,108
VII.	Other Operating Income	192,872	190,095
VIII.	Total Operating Income (III+IV+V+VI+VII)	2,291,992	1,970,957
IX.	Provision for Loan Losses and Other Receivables (-)	511,661	428,736
X.	Other Operating Expenses (-)	1,117,119	988,745
XI.	Net Operating Income/(Loss) (VIII-IX-X)	663,212	553,476
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	663,212	553,476
XIV.	Income/(Loss) on Net Monetary Position	-121,246	-108,795
XV.	Income/(Loss) on Net Monetary Position	541,966	444,681
XVI.	Tax Provision for Continued Operations (±)	-	-
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	-	-
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	541,966	444,681
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	444,681	370,450

Türkiye'nin Finans'ı

Türkiye Finans Katılım Bankası A.Ş. Summary Balance Sheet - Assets (TL thousand)

Assets		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Cash and Balances with the Central Bank	580,335	5,088,522	5,668,857	644,619	4,727,884	5,372,503
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	35,240	27,275	62,515	10,708	33,541	44,249
III.	Banks	748	561,018	561,766	47,590	177,779	225,369
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	1,530,838	1,750,429	3,281,267	1,035,552	1,249,011	2,284,563
VI.	Loans and Receivables	21,872,328	3,726,902	25,599,230	24,684,103	2,330,410	27,014,513
VII.	Investments Held to Maturity (Net)	782,553	-	782,553	888,893	-	888,893
VIII.	Investments in Associates (Net)	-	-	-	-	-	-
IX.	Subsidiaries (Net)	100	-	100	100	-	100
X.	Joint Ventures (Net)	-	-	-	-	-	-
XI.	Lease Receivables (Net)	1,417,512	-	1,417,512	1,552,415	-	1,552,415
XII.	Derivative Financial Assets for Hedging Purposes	111,124	-	111,124	48,627	-	48,627
XIII.	Tangible Assets (Net)	671,274	-	671,274	457,759	-	457,759
XIV.	Intangible Assets (Net)	70,035	-	70,035	54,371	-	54,371
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	74,356	-	74,356	83,474	-	83,474
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	95,655	-	95,655	1,732	-	1,732
XVIII.	Other Assets	355,148	56,325	411,473	489,293	58,438	547,731
	Total Assets	27,597,246	11,210,471	38,807,717	29,999,236	8,577,063	38,576,299

Türkiye Finans Katılım Bankası A.Ş. Summary Balance Sheet - Liabilities (TL thousand)

Liabilities		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I.	Funds Collected	11,845,762	9,219,019	21,064,781	12,060,297	10,117,117	22,177,414
II.	Derivative Financial Liabilities Held for Trading	25,354	7,003	32,357	19,044	14,310	33,354
III.	Funds Borrowed	862,035	9,394,538	10,256,573	1,163,249	7,494,397	8,657,646
IV.	Borrowings From Money Markets	547,774	-	547,774	972,544	-	972,544
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	622,328	250,335	872,663	725,049	293,720	1,018,769
VII.	Other Liabilities	497,771	22,186	519,957	746,142	75,369	821,511
VIII.	Lease Payables	104,771	-	104,771	-	-	-
IX.	Derivative Financial Liabilities for Hedging Purposes	-	352,675	352,675	-	284,543	284,543
X.	Provisions	380,949	57,490	438,439	375,251	65,029	440,280
XI.	Tax Liability	64,213	-	64,213	80,458	-	80,458
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	890,500	890,500	-	733,023	733,023
XIV.	Shareholders' Equity	3,717,937	(54,923)	3,663,014	3,411,987	(55,230)	3,356,757
	Total Liabilities	18,668,894	20,138,823	38,807,717	19,554,021	19,022,278	38,576,299

Türkiye'nin Finans'ı

Türkiye Finans

Türkiye Finans Katılım Bankası A.Ş. Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
A.	Off- Balance Sheet Commitments (I+II+III)	11,794,244	16,494,994	28,289,238	12,133,595	17,495,332	29,628,927
I.	Guarantees and Sureties	7,027,411	5,333,712	12,361,123	7,042,486	5,459,918	12,502,404
II.	Commitments	2,383,441	898,881	3,282,322	2,583,593	1,139,180	3,722,773
III.	Derivative Financial Instruments	2,383,392	10,262,401	12,645,793	2,507,516	10,896,234	13,403,750
B.	Custody and Pledged Items (IV+V+VI)	426,882,215	46,614,436	473,496,651	395,013,585	38,796,069	433,809,654
IV.	Items Held in Custody	4,285,205	1,481,789	5,766,994	14,049,491	4,326,143	18,375,634
V.	Pledged Items	422,597,010	45,062,214	467,659,224	380,964,094	34,416,950	415,381,044
VI.	Accepted Independent Guarantees and Warranties	-	70,433	70,433	-	52,976	52,976
	Total Off- Balance Sheet Accounts (A+B)	438,676,459	63,109,430	501,785,889	407,147,180	56,291,401	463,438,581

Türkiye Finans Katılım Bankası A.Ş. Summary Statement of Income (TL thousand)

Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	2,981,301	2,780,246
II.	Profit Share Expense	1,471,762	1,375,984
III.	Net Profit Share Income/Loss (I - II)[I - II]	1,509,539	1,404,262
IV.	Net Fees and Commissions Income/Expenses	143,012	142,469
V.	Dividend Income	-	-
VI.	Trading Income/Loss (Net)	99,170	21,341
VII.	Other Operating Income	313,913	123,767
VIII.	Total Operating Income (III+IV+V+VI+VII)	2,065,634	1,691,839
IX.	Provision for Loan Losses and Other Receivables (-)	(850,419)	(551,273)
X.	Other Operating Expenses (-)	(846,140)	(807,741)
XI.	Net Operating Income/(Loss) (VIII-IX-X)	369,075	332,825
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	-	-
XIV.	Income/(Loss) on Net Monetary Position	-	-
XV.	Income/(Loss) on Net Monetary Position	369,075	332,825
XVI.	Tax Provision for Continued Operations (±)	(72,832)	(71,749)
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	296,243	261,076
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	-	-
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	296,243	261,076

VAKIF KATILIM

Vakıf Katılım Bankası A.Ş. Summary Balance Sheet - Assets (TL thousand)

Assets		Current Period (31/12/2016) TL	Current Period (31/12/2016) FC	Current Period (31/12/2016) Total	Prior Period (31/12/2015) TL	Prior Period (31/12/2015) FC	Prior Period (31/12/2015) Total
I.	Cash and Balances with the Central Bank	162,604	388,327	550,931	1	-	1
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	5,420	6	5,426	-	-	-
III.	Banks	7,974	576,253	584,227	285,731	548,658	834,389
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	464,411	-	464,411	10,020	-	10,020
VI.	Loans and Receivables	2,568,486	377,961	2,946,447	-	-	-
VII.	Investments Held to Maturity (Net)	-	-	-	-	-	-
VIII.	Investments in Associates (Net)	-	-	-	-	-	-
IX.	Subsidiaries (Net)	100	-	100	-	-	-
X.	Joint Ventures (Net)	-	-	-	-	-	-
XI.	Lease Receivables (Net)	12,976	46,344	59,320	-	-	-
XII.	Derivative Financial Assets for Hedging Purposes	-	-	-	-	-	-
XIII.	Tangible Assets (Net)	33,326	-	33,326	6,877	-	6,877
XIV.	Intangible Assets (Net)	25,130	-	25,130	823	-	823
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	2,320	-	2,320	9,736	-	9,736
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XVIII.	Other Assets	9,853	442	10,295	89	95	184
	Total Assets	3,292,600	1,389,333	4,681,933	313,277	548,753	862,030

Vakıf Katılım Bankası A.Ş. Summary Balance Sheet - Liabilities (TL thousand)

Liabilities		Current Period (31/12/2016) TL	Current Period (31/12/2016) FC	Current Period (31/12/2016) Total	Prior Period (31/12/2015) TL	Prior Period (31/12/2015) FC	Prior Period (31/12/2015) Total
I.	Funds Collected	2,240,970	793,786	3,034,756	-	-	-
II.	Derivative Financial Liabilities Held for Trading	2,094	-	2,094	-	-	-
III.	Funds Borrowed	1,002	198,276	199,278	-	-	-
IV.	Borrowings From Money Markets	40,832	-	40,832	-	-	-
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	476,500	15,640	492,140	934	2,398	3,332
VII.	Other Liabilities	-	-	-	-	-	-
VIII.	Lease Payables	-	-	-	-	-	-
IX.	Derivative Financial Liabilities for Hedging Purposes	-	-	-	-	-	-
X.	Provisions	24,915	4,186	29,101	-	-	-
XI.	Tax Liability	7,314	-	7,314	1,027	-	1,027
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	-	-	-	-	-
XIV.	Shareholders' Equity	876,418	-	876,418	857,671	-	857,671
	Total Liabilities	3,670,045	1,011,888	4,681,933	859,632	2,398	862,030

Vakıf Katılım Bankası A.Ş. Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)		
		TP	YP	Toplam
A.	Off- Balance Sheet Commitments (I+II+III)	1,378,510	1,609,704	2,988,214
I.	Guarantees and Sureties	554,204	801,354	1,355,558
II.	Commitments	30,209	18,594	48,803
III.	Derivative Financial Instruments	794,097	789,756	1,583,853
B.	Custody and Pledged Items (IV+V+VI)	13,933,935	26,327	13,960,262
IV.	Items Held in Custody	727,845	576	728,421
V.	Pledged Items	13,206,090	25,751	13,231,841
VI.	Accepted Independent Guarantees and Warranties	-	-	-
	Total Off- Balance Sheet Accounts (A+B)	15,312,445	1,636,031	16,948,476

Vakıf Katılım Bankası A.Ş. Summary Statement of Income (TL thousand)

Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	140,987	10,068
II.	Profit Share Expense	42,355	-
III.	Net Profit Share Income/Loss (I - II)[I - II]	98,632	10,068
IV.	Net Fees and Commissions Income/Expenses	1,244	-
V.	Dividend Income	-	-
VI.	Trading Income/Loss (Net)	34,983	60,497
VII.	Other Operating Income	954	-
VIII.	Total Operating Income (III+IV+V+VI+VII)	135,813	70,565
IX.	Provision for Loan Losses and Other Receivables (-)	24,109	-
X.	Other Operating Expenses (-)	84,864	4,708
XI.	Net Operating Income/(Loss) (VIII-IX-X)	26,840	65,857
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	-	-
XIV.	Income/(Loss) on Net Monetary Position	-	-
XV.	Income/(Loss) on Net Monetary Position	26,840	65,857
XVI.	Tax Provision for Continued Operations (±)	-7,824	-13,177
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	19,016	52,680
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	-	-
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	19,016	52,680

Ziraat Katılım

Ziraat Katılım Bankası A.Ş. Summary Balance Sheet - Assets (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Assets		TL	FC	Total	TL	FC	Total
I.	Cash and Balances with the Central Bank	633,389	567,909	1,201,298	29,239	137,837	167,076
II.	Financial Assets at Fair Value Through Profit and Loss (Net)	7	1,152	1,159	2,870	1	2,871
III.	Banks	6,561	461,893	468,454	17,979	94,586	112,565
IV.	Money Market Placements	-	-	-	-	-	-
V.	Financial Assets-Available for Sale (Net)	407,515	7,168	414,683	120,973	6,049	127,022
VI.	Loans and Receivables	4,949,028	608,914	5,557,942	1,442,397	247,709	1,690,106
VII.	Investments Held to Maturity (Net)	-	-	-	-	-	-
VIII.	Investments in Associates (Net)	-	-	-	-	-	-
IX.	Subsidiaries (Net)	50	-	50	-	-	-
X.	Joint Ventures (Net)	-	-	-	-	-	-
XI.	Lease Receivables (Net)	221,373	-	221,373	8,854	-	8,854
XII.	Derivative Financial Assets for Hedging Purposes	-	-	-	-	-	-
XIII.	Tangible Assets (Net)	43,643	-	43,643	38,788	-	38,788
XIV.	Intangible Assets (Net)	22,905	-	22,905	20,996	-	20,996
XV.	Investment Property (Net)	-	-	-	-	-	-
XVI.	Tax Asset	4,876	-	4,876	3,272	-	3,272
XVII.	Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XVIII.	Other Assets	-	-	-	5,860	25	5,885
	Total Assets	6,312,328	1,647,179	7,959,507	1,691,228	486,207	2,177,435

Ziraat Katılım Bankası A.Ş. Summary Balance Sheet - Liabilities (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Liabilities		TL	FC	Total	TL	FC	Total
I.	Funds Collected	3,776,793	1,859,209	5,636,002	735,731	520,574	1,256,305
II.	Derivative Financial Liabilities Held for Trading	-	-	-	-	-	-
III.	Funds Borrowed	101,459	1,185,762	1,287,221	-	163,905	163,905
IV.	Borrowings From Money Markets	133,668	-	133,668	48,536	-	48,536
V.	Securities Issued (Net)	-	-	-	-	-	-
VI.	Miscellaneous Payables	13,218	3,809	17,027	15,246	4,513	19,759
VII.	Other Liabilities	45,594	932	46,526	5,955	284	6,239
VIII.	Lease Payables	-	-	-	-	-	-
IX.	Derivative Financial Liabilities for Hedging Purposes	-	-	-	-	-	-
X.	Provisions	62,750	1,824	64,574	14,960	39	14,999
XI.	Tax Liability	9,868	-	9,868	3,162	-	3,162
XII.	Liabilities for Assets Held for Sale and Assets of Discontinued Operations (Net)	-	-	-	-	-	-
XIII.	Subordinated Loans	-	-	-	-	-	-
XIV.	Shareholders' Equity	764,728	(107)	764,621	664,609	(79)	664,530
	Total Liabilities	4,908,078	3,051,429	7,959,507	1,488,199	689,236	2,177,435

Ziraat Katılım

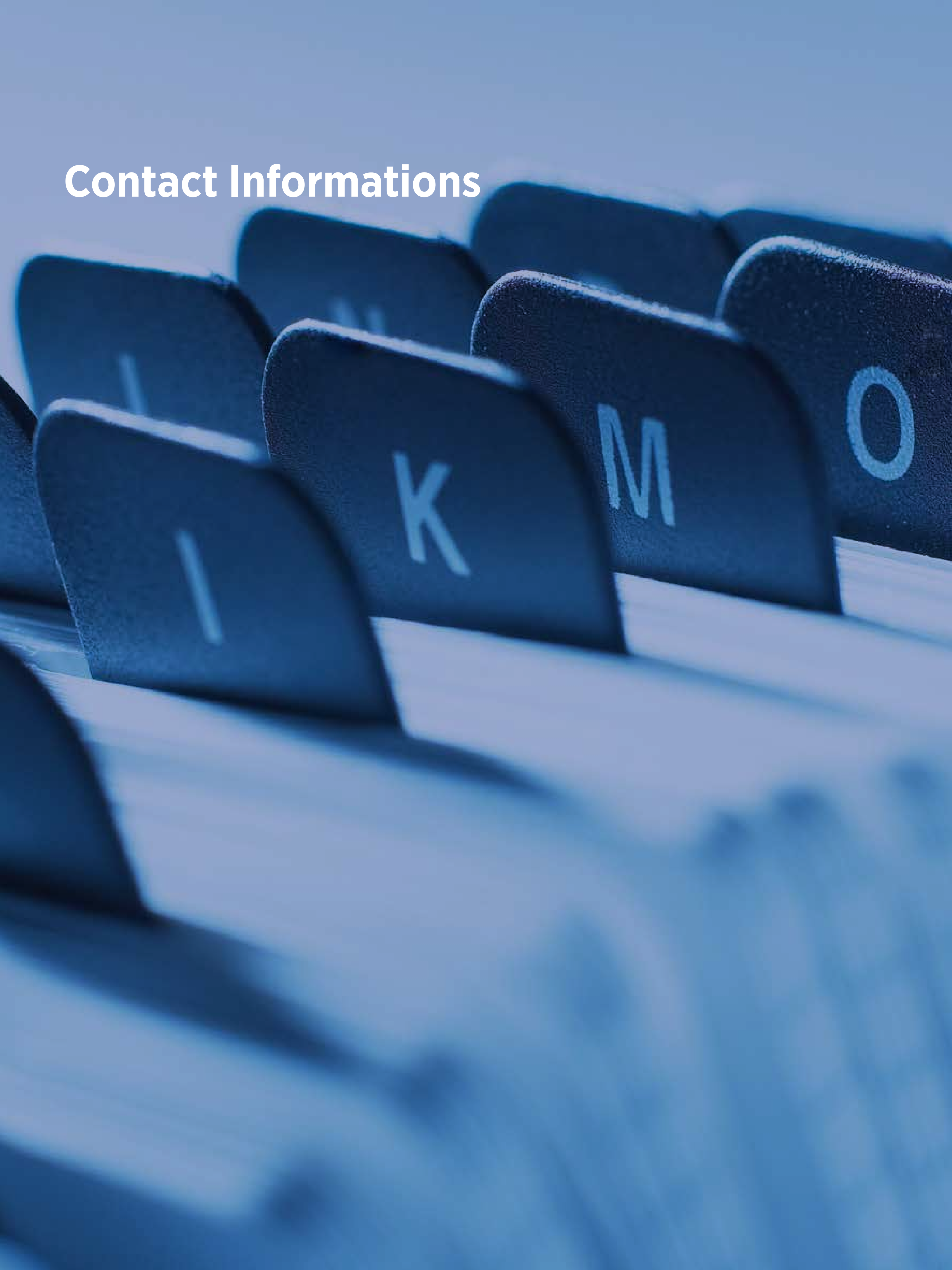
Ziraat Katılım Bankası A.Ş. Summary Off-Balance Sheet Commitments (TL thousand)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
A.	Off- Balance Sheet Commitments (I+II+III)	1,380,632	2,435,507	3,816,139	151,050	411,327	562,377
I.	Guarantees and Sureties	1,341,334	2,166,635	3,507,969	82,420	317,140	399,560
II.	Commitments	39,298	9,200	48,498	3,208	-	3,208
III.	Derivative Financial Instruments	-	259,672	259,672	65,422	94,187	159,609
B.	Custody and Pledged Items (IV+V+VI)	6,580,645	334,443	6,915,088	663,443	44,080	707,523
IV.	Items Held in Custody	197,945	103,513	301,458	31,043	10,939	41,982
V.	Pledged Items	6,382,700	230,930	6,613,630	632,400	33,141	665,541
VI.	Accepted Independent Guarantees and Warranties	-	-	-	-	-	-
	Total Off- Balance Sheet Accounts (A+B)	7,961,277	2,769,950	10,731,227	814,493	455,407	1,269,900

Ziraat Katılım Bankası A.Ş. Summary Statement of Income (TL thousand)

Income/Loss Items		Current Period (01/01/2016-31/12/2016)	Prior Period (01/01/2015-31/12/2015)
I.	Profit Share Income	390,742	86,425
II.	Profit Share Expense	180,885	17,976
III.	Net Profit Share Income/Loss (I - II)[I - II]	209,857	68,449
IV.	Net Fees and Commissions Income/Expenses	14,205	(74)
V.	Dividend Income	-	-
VI.	Trading Income/Loss (Net)	7,030	2,998
VII.	Other Operating Income	1,739	37
VIII.	Total Operating Income (III+IV+V+VI+VII)	232,831	71,410
IX.	Provision for Loan Losses and Other Receivables (-)	51,770	15,029
X.	Other Operating Expenses (-)	140,579	68,089
XI.	Net Operating Income/(Loss) (VIII-IX-X)	40,482	(11,708)
XII.	Excess Amount Recorded as Gain After Merger	-	-
XIII.	Income/(Loss) on Equity Method	-	-
XIV.	Income/(Loss) on Net Monetary Position	-	-
XV.	Income/(Loss) on Net Monetary Position	40,482	(11,708)
XVI.	Tax Provision for Continued Operations (±)	(9,809)	274
XVII.	Net Income/(Loss) From Continued Operations (XV±XVI)	30,673	(11,982)
XVIII.	Income From Discontinued Operations	-	-
XIX.	Loss From Discontinued Operations (-)	-	-
XX.	Income/(Loss) on Discontinued Operations Before Taxes (XVIII-XIX)	-	-
XXI.	Tax Provision for Discontinued Operations (±)	-	-
XXII.	Net Income/Loss From Discontinued Operations (XX±XXI)	-	-
XXIII.	Net Income/Loss (XVII+XXII)	30,673	(11,982)

Contact Informations



The contact information of the head offices of participation banks operating in Turkey is presented below.

You can access the contact information of the participation banks for physical and virtual service points in Turkey and abroad by reading the QR code on the browser of your mobile device.

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Kuveyt Türk Katılım Bankası A.Ş.

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