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Stability of the Participation Banking Sector Against the Economic Crisis in Turkey

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ABSTRACT: The purpose of this article is to analyze whether participating banking sector is more stable than conventional banking sector during the global economic crisis. The main point is that which banking system are financially less affected from the global economic crisis. For this anlysis, we have used trend analysis method for 2006-2011 on yearly basis. In this study, yearly financial ratios of conventional and participating banking sectors were utilized. Financial ratios can be sorted as profitability, liquidity, risknesss and asset quality ratios. Results of the study show that participating banking sector is more stable than conventional banking sector in terms of profitability, riskiness and liquidity during the analysis term which includes 2008 global economic crisis. In addition, both sectors are almost similiar and stable in terms of asset quality.

Keywords: Participation banks; conventional banks; economic crisis; stability
JEL Classifications: G21

1. Introduction

Since, there is an intensive relationship between banking sector and general economy of a country in the world, the stability of banking sector is very crucial for a safe economy. If a banking sector face an economic problem, this negatively affects public and private companies in a country and consequently, economic condition of the individuals who lives in the country is worsen. So, stability of the banking sector should be achieved to get safer economic condition in a country.

The global financial crisis of 2008 that started in the United States has given a wide array of impacts to the operating and financial performance of many banks all over the world. As a result, many banks across the world reported financial loss on their financial report due to their connections with subprime mortgage in the U.S. or were simply affected by economic recession in their own countries. The effect of the crisis have even forced around 123 banks in the United States to file for bankruptcy in the year, including American giant bank Lehman Brother that was never been expected to fail (Hidayat and Abduh, 2012)

The financial crisis has attracted attentions to the participating banks since they are said to be relatively much less affected by the crisis. Some experts and officials of participating banks have even claimed that participating banks are either not or less affected by the global financial crisis than conventional peers due to the nature of participating banking in which all financial transactions must be trade-based and asset-linked (Hidayat and Abduh, 2012)

The size of participating banking operations is growing rapidly across the world, at an estimated rate of 15 per cent annually. This demonstrates the acceptance of the participating finance model throughout the world. Generally, investors in conventional banks are primarily concerned with making profits, irrespective of *Shari[ah* principles (Kuppusamy et al., 2010).

In addition to the stability and resilience, several other factors have contributed to the strong growth of participating finance, including: (i) strong demand in many islamic countries for *Shariah*-compliant products; (ii) progress in strengthening the legal and regulatory framework for participating finance; (iii) growing demand from conventional investors, including for diversification purposes; and (iv) the capacity of the industry to develop a number of financial instruments that meet most of the needs of corporate and individual investors (Hasan and Dridi, 2010).

This study has been planned to analyze how the stability of the participation banking sector against the economic crisis is. In order to accomplish this, I have compared conventional and participation banking sectors based on their stability during the economic crisis. For the analysis, some widely used financial ratios of banking sectors for the 2006-2011 term and the trend analysis method have been used.

2. Main Features of The Participation Banking System

Islamic finance started as a small cottage industry in some Arab countries in the late 1970s. It distinguishes itself from conventional finance in its ostensible compliance with principles of Islamic law. Its growth has been accelerating ever since, in terms of the number of countries in which it operates, as well as the areas of finance in which it has ventured. In recent years, the industry has attracted a number of Western multinational financial institutions, such as Citigroup and HSBC, which started offering Islamic financial products in some Arab countries (notably, Bahrain and the UAE), and to a lesser extent in the Western world, including the USA and UK where HSBC offers various Islamic financial products in New York and London, including home financing, checking accounts, etc. (Ahmed, 2010).

A participating bank is mainly a partner with its depositors, on the one side, and also a partner with entrepreneurs, on the other side, when employing depositors' funds in productive direct investment as compared to a conventional bank which is basically a borrower and lender of funds (Moin, 2008).

The main differentiating factors of the participating banking system are the sharing of risk and the prohibition of “riba” (usury/interest). Participating banks would (i) not engage in interest based debt transactions, (ii) not conduct a purely financial transaction disconnected from real economic activity, (iii) not participate in a transaction where there is the exploitation of any party, and (iv) not participate in activities regarded as harmful to community (Zarrouk, 2012).

According to the Ahmed (2010), The basis of practice of Islamic finance is compliance with religious beliefs. This compliance translates itself in various aspects of operations, products, and service delivery of financial services. He says that this compliance can be classified in five topics;

(1) Consumer and business loan alternatives: The juristic-based understanding of forbidden riba/usury suggested that Islamic finance has to be “asset based”, in the sense that one cannot collect or pay interest on rented money, as one does in conventional banking. Therefore, the easiest transactions to Islamize were secured lending operations, (e.g. to finance the purchase of real estate, vehicles, business equipment).

The study also states that three main tools are utilized for this type of retail financing:

(a) Buy-sell-back arrangements given the classical Arabic name: murabaha;

For this transaction, the bank obtains a promise that its customer will purchase the property on credit at an agreed-upon mark-up (interest alternative), then proceeds to buy the property and subsequently sell it to the customer. These are similar to the Federal Reserve’s use of “matched-sale purchases”. In 1999, at the request of United Bank of Kuwait, the Office of the Comptroller of the Currency issued an interpretive letter declaring murabaha financing to be “functionally equivalent to or a natural outgrowth of secured real estate lending and inventory and equipment financing, activities that are part of the business of banking”. The mark-up in murabaha financing is benchmarked conventional interest rates.

(b) Lease-to-purchase or diminishing partnership arrangements under the Arabic names ijara or Musharaka Mutanaqisa;

A typical structure requires the bank to create a special purpose vehicle to purchase and hold title to the financed property. The “special purpose vehicle” then leases the property to the customer, who makes monthly payments that are part-rent and part-principal. Rents are calculated based on market price. The juristic justification of this practice is that principal parts of monthly payments increase the customer’s ownership in the property, and allow him to pay less rent (on the part ostensibly owned by the bank through the “special purpose vehicle”) over time. At the request of United Bank of Kuwait, the Office of the Comptroller of the Currency examined the typical structure of Islamic lease-to-own (ijara) transactions, and reasoned as follows: Today, banks structure leases so that they are equivalent to lending secured by private property, a lease that has the economic attributes of a loan is within the business of banking. Here it is clear that United Bank of Kuwait’s net lease is functionally equivalent to a financing transaction in which the Branch occupies the position of a secured lender. An added advantage to lease financing is that Islamic jurists allow the "special purpose vehicle" to issue certificates securitizing the lease (ostensibly, the certificates represent ownership of the underlying asset, and thus allow their holders to collect rent).

In recent years, this has given rise to a booming securitization industry in Islamic finance. In the USA, both Fannie Mae and Freddie Mac have purchased and guaranteed ijara-based mortgages, subject to their note requirements (which required overcoming some legal and juristic hurdles). Those Islamic mortgage-backed securities are currently being marketed as fixed-income investment alternatives for Muslims.

(c) Recently, banks in Gulf Cooperation Council countries have been offering consumer finance through a three-party contract known by the Arabic name Tawarruq.

This is an application that participating banks have used with more sophisticated business clients for a number of years, but only recently introduced for consumer financing. For example, a customer wants to borrow £1,000 using an Islamic juristic-compliant mechanism. Gulf Cooperation Council Islamic jurists, relying on an opinion within the Hanbali school of jurisprudence, which is dominant in that region, allow the bank to buy £1,000 worth of commodities (e.g. wheat), and sell them to the customer on credit at a mark-up (equal to the interest rate they would have charged on a loan, perhaps plus compensation for the transaction costs associated with multiple sales). The customer may then turn around and sell the commodity to a third party (oftentimes, the same party that sold it to the bank), collecting the desired cash immediately, with a deferred debt equal to principal plus interest.

(2) Corporate and government bond alternatives: In its early stages of development in the 1980s and 1990s, a number of bond alternatives were tried with very limited success. Some were based on special purpose vehicle (e.g. in Sudan and Pakistan), while others guaranteed the principal but did not guarantee a fixed rate of return (e.g. in Malaysia). Once the securitization of leases (discussed in the previous section) became fully understood, a significant number of corporate and government bonds were structured as lease-backed securities (under the Arabic name Sukuk al-Ijara).

Because the underlying assets for this type of bond are debts, Islamic jurists ruled that they cannot be traded on secondary markets (except at face value, which defeats the purpose). Therefore, they were originally envisioned as vehicles primarily for Islamic banks to hold to maturity. Recently, however, Bahrain has introduced some innovative repurchase facilities, to allow Islamic banks to use those bills more effectively for liquidity management.

(3) Investment vehicle alternatives (e.g. mutual fund, private equity): For investment in corporate equity, it was easy to see why Islamic investors should shy away from companies that produced products that are forbidden to Muslims (e.g. beer, pork products). The issue of interest was much more difficult. Most companies either have excess liquidity and they earn interest, or use leverage and they pay interest. Islamic jurists decided to invoke the rule of necessity (the universe of equity securities to choose from would be too small if they exclude all companies that either pay or receive interest).

Dow Jones, and later Financial Times, launched their Islamic indices in the late 1990s, and continue to add various other Islamic indices paralleling their other conventional indices, with the smaller universe of equity securities. Mutual fund companies either imitate their screening rules, or obtain licenses from one of the indices, which they use as a benchmark. These types of mutual funds are usually called "Islamic" or "Shariah-compliant". While sales of mutual funds in general have done well in Saudi Arabia and Gulf Cooperation Council markets, Islamic mutual funds seem to have only a limited marketing advantage over conventional ones.

(4) Insurance alternatives, Takaful: The vast majority of Islamic jurists declared the use of, and investment in, insurance companies to be impermissible under Islamic jurisprudence. This prohibition is based on two considerations: the first consideration is that "safety" or "insurance" is not itself viewed as an object of sale in classical Islamic jurisprudence. Thus, Islamic jurists argued, the insured-insurer relationship is viewed to be one similar to gambling, wherein the insured as buyer pays periodic premium as price, but may or may not receive the object of sale or compensation in case of loss, depending on chance. The second consideration that prompted Islamic jurists to forbid insurance is the fact that insurance companies tend to concentrate their assets in interest-based instruments such as government bonds and mortgage-backed securities.

The alternative they proposed is marketed under the Arabic name Takaful, which has recently begun making inroads in Islamic countries, after years of slow growth. The main idea behind Takaful is similar to mutual insurance, wherein there is no commutative financial contract that allows one to interpret premium payments as prices and insurance claim fulfillment as an object of sale. Rather, policy holders are viewed as contributors to a pool of money, which they agree voluntarily to share in cases of loss to any of them. Early Takaful companies were in fact structured as stock insurance companies, but the language of "voluntary contribution" to insurance claimants was used to argue that the contract was not a commutative one. Inroads have recently been made by Bank Al-Jazira of Saudi Arabia by modifying its insurance to better approximate Western-style mutual insurance, and the model appears to be boosting its underwriting success.

Regardless of structure, both types of Takaful companies do not invest in conventional government bonds and fixed-income securities. However, as seen elsewhere in this section, Islamized analogues of those securities have become increasingly available in recent years, further contributing to the industry's growth. Despite the industry's growth, it has not yet reached a critical size that would support the equivalent of re-insurance, or "re-Takaful", companies to emerge. Consequently, Islamic jurists have invoked the rule of necessity to allow Takaful companies to sell their risks to conventional re-insurance companies, with the provision that they should work to develop a re-Takaful company as soon as possible.

(5) Bank deposit and fixed income security alternatives: In the Islamic world, participating banks can only accept fiduciary deposits, for which they cannot pay interest, since interest would be considered usury/riba once the principal is guaranteed. On the other hand, they are allowed to accept "investment account" funds, which they may invest on behalf of the account holders, and share profits and losses thereof. This clearly gives rise to a moral hazard problem, and a regulatory issue regarding protection of investment account holders who are neither protected as creditors (first claimants), nor as stock-holders with representation on boards of directors.

In Islamic finance, a financial contract should have specific terms relating to the "sale, price, deliverability, quantity, quality, existence, etc." of the goods and services. Also, vague and misleading terms in contracts are prohibited because they promote uncertainty about the financial transaction. Contracts should be transparent. Contracting parties must be cognizant and have advanced knowledge of all aspects of the financial transaction. *Gaharar* is prohibited because it promotes injustice and inequality for one of the parties during the financial transaction due to lack of information disclosed. Likewise, Islamic finance forbids financial speculation, or *Qimar*. Speculation occurs when "two or more parties each undertake the risk of a loss where a loss for one means the gain for the other". Under the tenets of Islamic finance, speculation is banned because there is the possibility of effortless profit creation. The main principle behind the prohibiting speculation and financial uncertainty is to prevent the immoral exploitation of the weak and lower classes (Walton, 2011).

Some main differences between conventional and participating banks can be summarized as follow (Addawe, 2012);

(i) The investor of conventional banking is assured of a predetermined rate of interest, In contrast, participating banks promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur)

(ii) Lending money and getting it back with compounding interest is the fundamental function of the conventional banks. But, participation in partnership business is the fundamental function of the participating banks. So we have to understand our customer's business very well.

(iii) Conventional banking can charge additional money (penalty and compounded interest) in case of defaulters. But, the participating banking has no provision to charge any extra money from the defaulters. Only small amount of compensation and these proceeds is given to charity. Rebates are given for early settlement at the Bank's discretion.

(iv) Very often conventional banking results in the bank's own interest becoming prominent. It makes no effort to ensure growth with equity. But, participating banking gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.

(v) Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations. Since participating banking shares profit and loss, it pays greater attention to developing project appraisal and evaluations.

(vi) The conventional banks give greater emphasis on credit-worthiness of the clients. The participating banks, on the other hand, give greater emphasis on the viability of the projects.

(vii) The status of a conventional bank, in relation to its clients, is that of creditor and debtors. But, the status of participating bank in relation to its clients is that of partners, investors and trader, buyer and seller.

(viii) A conventional bank has to guarantee all its deposits. In contrast, participating bank can only guarantee deposits for deposit account which the depositors are guaranteed repayment of their funds, however if the account is based on the mudarabaha concept, client have to share in a loss position.

3. Literature Review

Since, there is a strong relationship between stability and resilience of banking sector and economic safety, many researches have been made to see which banking sector, conventional or participating, is more stable and robust. These researches are mainly in the area of stability and performance comparison during the economic crisis. Some of these researches are as follow;

Hasan and Dridi (2010) have examined the performance of participating banks and conventional banks during the recent global crisis by looking at the impact of the crisis on profitability, credit and asset growth, and external ratings in a group of countries where the two types of banks have significant market share. Their analysis suggests that participating banks have been affected differently than conventional banks. Participating banks‘ credit and asset growth performed better than did that of conventional banks in 2008–09, contributing to financial and economic stability. External rating agencies‘ re assessment of participating banks’ risk was generally more favorable.

Said (2012) has compared the change in efficiency of different banks, specifically participating and conventional, that occurred during the 2007 to 2009 economic downturn, using 2006 as baseline. Relative assets size and bank classification have used to compare the change in banks’ efficiency. The research questions have addressed whether efficiency changes during the financial crisis of 2007-2009 were different between conventional and participating banks. In the analysis, data envelopment technique has been used to calculate the efficiency of these banks, and independent samples t test has been used to test the hypotheses. The results indicate that the financial crisis has the greatest impact on the efficiency of small commercial conventional banks compared to participating banks and large conventional banks.

Miniaoui and Gohou (2011) have evaluated the performance of conventional and participating banking systems by using conditional and unconditional methodology. They have used balance sheet data for 37 banks of the United Arab Emirates. In the study, unconditional and conditional performance differences show that the conventional banking is performing better than the participating one. However, after the crisis, participating banks seem to close the difference for most of these performance indicators.

Hidayat and Abduh (2012) have searched to see the impact of global financial crisis towards the financial performance of participating banking industry in Bahrain. Moreover, it also utilizes bank specific factors as predictors for participating bank performance in Bahrain. Panel regression model has been used to analyze the data. The results show that there is no significant impact of financial crisis upon the financial performance of participating banks during the crisis term. However, it does affect the financial performance of Bahrain participating banking industry after the crisis term.

Beck et al., (2010) have compared conventional and participating banks based on bank and country characteristics. The authors have found few significant differences in business orientation, efficiency, asset quality, or stability. While participating banks seem more cost-effective than conventional banks in a broad cross-country sample, this finding reverses in a sample of countries with both participating and conventional banks. However, they also state that conventional banks that operate in countries are more cost-effective but less stable.

Parashar and Venkatesh (2010) have made a research about the performance comparison of participating and cenventional banking during the economic crisis. They have used six ratios to analyse and compare performance of participating banks and conventional banks. Their study shows that participating banks have suffered more than conventional banks during the recent global financial crisis in terms of capital ratio, leverage and return on average equity, while conventional banks have suffered more than participating banks in terms of return on average assets and liquidity. Over the four years term, 2006-2009, participating banks performed better than conventional banks.

Abduh et al., (2011) have made a research which aims to analyze the dynamic effects of interest and profit rate changes, production level, inflation and financial crisis towards the fluctuation of total deposits in Malaysian participating banks. They have used monthly data from January 2000 to December 2010, cointegration test and vector error correction model to uncover the dynamic relationship between macroeconomic variables and crisis with total deposit of participating banking. As a result, this study provides evidence of general consumer sentiment and deposit behavior. It indicates that in general, due to the 1997/1998 financial crisis experience, bank depositors have trusted participating banking to be more resilient in facing financial crisis and hence, inflow of deposits to participation banks was increased during 2007/2008 financial crisis.

Addawe (2012) has made a researh that aims to investigate what are the impacts of the global financial crisis on participating banking system and how participating bank spared from the current global financial crisis. To understand the issue some important sub questions have been investigated such as the differences between participating and conventional banking model, modes of financing by the participating bank, differences in corporate governance and how Interest-free banking system works in general, the empirical part of the study is based on open-ended questionnaire complemented with semi-structured interviews from two fully sharia compliant participating and two conventional bank's participating window managers who make investment decisions in their banks. The result of his study indicates that participating banks are more resilient than conventional banks in the face of the global financial crisis.

Yudistira (2004) has tried to search whether the participation banks are stable and efficient. Technical, pure technical, and scale efficiency measures has been calculated by utilizing non-parametric technique, Data Envelopment Analysis. The results of this study suggest that inefficiency across 18 participating banks is small at just over 10 percent, which is quite low compared to many conventional counterparts. Participating banks in the sample suffered from the global crisis in 1998-1999 but performed very well after the difficult terms. The findings also indicate that there are diseconomies of scale for small-to-medium participating banks which suggests that mergers should be encouraged.

According to the Shafique et al., (2008), the recent global financial crisis has badly affected the conventional banking system everywhere in the world. Participation banking system has been also affected by the global financial crisis but performance of participation banks during the global financial crisis is better than conventional banks. In addition, they state that risk in participation banks is less than conventional banks because of its interest free nature.

Kayed and Hassan (2011) state that the evidence at hand strongly suggests that Islamic finance is well endowed to deliver noteworthy contributions toward a more healthy and stable international economy. They have argued that an honest implementation of the Islamic theory of finance is potentially capable of solving such crises happening simply because most of the factors that have caused or contributed to the development and the spread of the crisis are not allowed under the rules and guidance of participating banking.

Yabanlı (2011) has made a study to define *interest* from the Islamic perspective, economic realities and the roles, the place of interest mechanism in 2008 Global Financial Crisis in the lights of its relations with the other basic economic indicators and structures, then tries to explain how the 2008 financial crisis boomed, focusing on the ostensible unknown but actually the catalyst of the crisis. At the end of the study it has been realized that this interest type and the mortgage processes especially by the way of coming from derivative actions which are not allowed in the participation banks harmed the economic relations

As it is seen from the studies above, while some of them show that participating banking sector is more stable and resilient than conventional banking sector during the economic crisis, some of them show opposing results. Therefore, there is no agreement on this issue.

4. Research Method and Data

In this study, I have tried to compare stability between conventional and participation banking sectors of Turkey during the 2008 global economic crisis. In order to make this analysis, some financial ratios belong to banking sector in the 2006-2011 yearly term and trend analysis method have ben used

There are 4 privately-owned commercial participaton banks and 11 privately-owned commercial conventional banks in Turkey. We have used the data of these 15 banks in the analysis. First, I have calculated average financial ratios of each banking sector and compared them during the 5 years term.

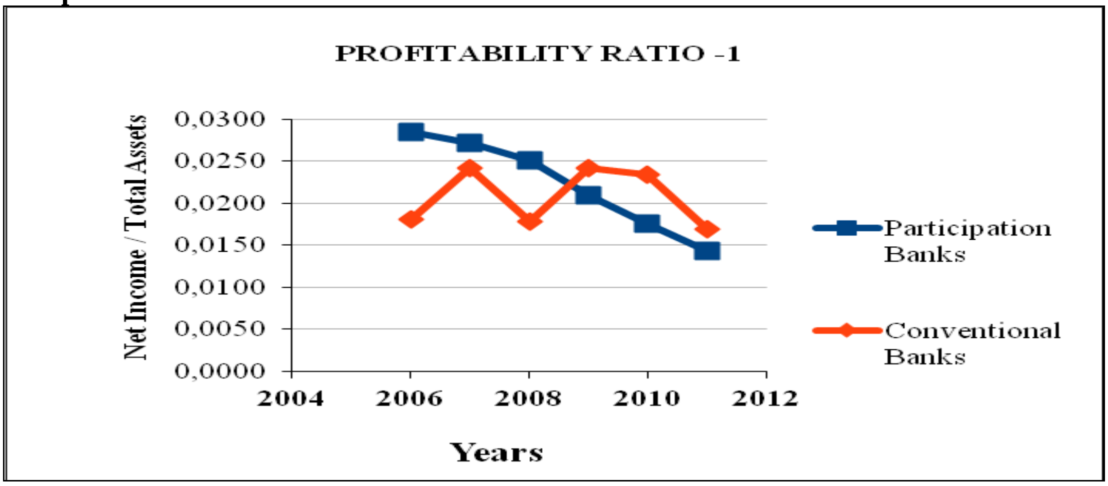
The financial ratios used in the analysis are consist of *profitability*; net income / total assets, net income / total deposits, *liquidity*; liquit assets / short term liabilities, liquit assets / total assets, *riskiness*; total payables / total assets, total deposits / total assets and *asset quality ratio*; loans / total assets.

We have calculated these ratios of two banking sectors by using balance sheet and profit/Loss statements. The data of conventional banking sector has been taken from the web site of Banking Regulation and Supervision Agency in Turkey and the data of participation banking sector has been taken from the web site of The Participation Bank Association of Turkey.

5. Results of The Analysis

The graph 1 shows "net income/total assets" ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows the profitability of assets for these sectors. As it is seen on the graph, profitability of assets of the conventional banking sector is decreasing and is not stable, in contrast, profitability of assets of the participating banking sector is also dcreasing but is stable during the analysis term which inclueds the 2008 global economic crisis.

Graph 1. Net Income / Total Assets

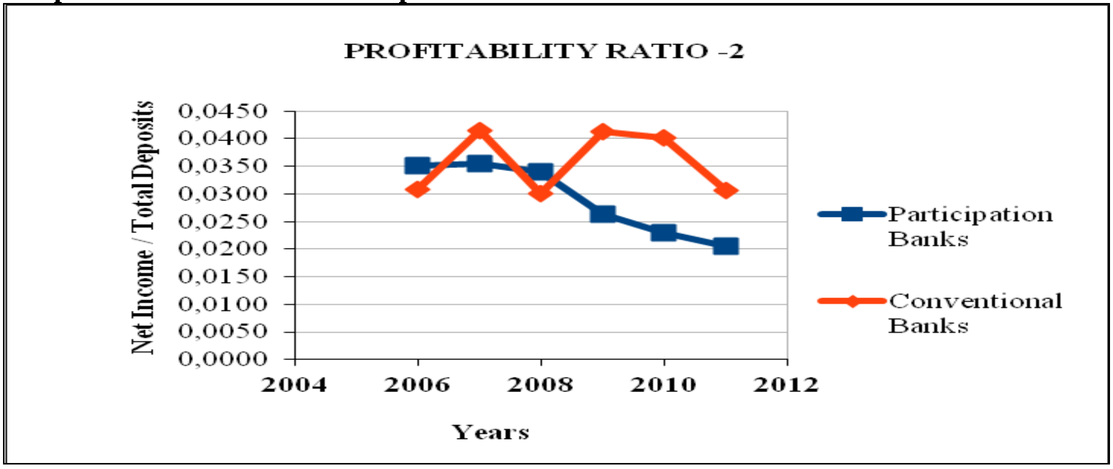


Source: It has been calculated by the author

The graph 2 shows "net income/total deposits" ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows the profitability of deposits for these sectors. As it is seen on the graph, profitability of deposits of the conventional banking sector is decreasing and is not stable, in contrast, profitability of deposits of the participating banking sector is also decreasing but is almost stable during the analysis term which inclueds the 2008 global economic crisis.

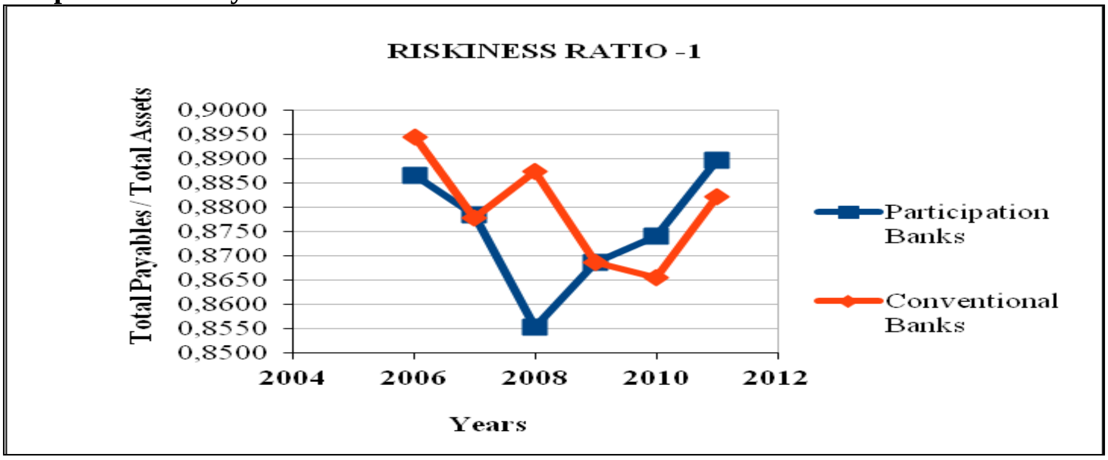
The graph 3 shows "total payables/total assets" ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows the riskiness of these sectors. As it is seen on the graph, While riskiness of the conventional banking sector is increasing, riskiness of the participating banking sector is decreasing during the 2008 global economic crisis. This may show that conventional banking sector takes more dept during the crisis because of the financial difficulties, in contrast, participating banking sector does not need more depth because it is not in the financial diffuculties.

Graph 2. Net Income / Total Deposits



Source: It has been calculated by the author

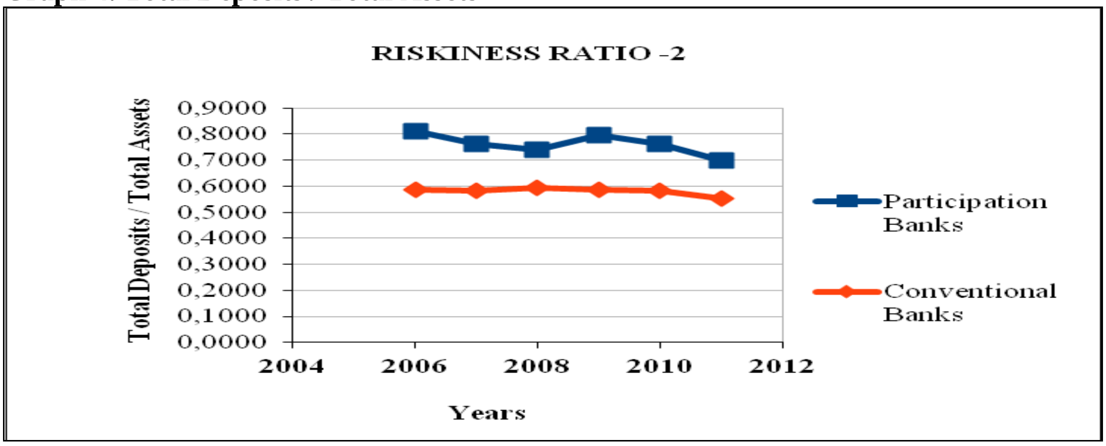
Graph 3. Total Payables / Total Assets



Source: It has been calculated by the author

The graph 4 shows “total deposits/total assets” ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows the riskiness of these sectors. As it is seen on the graph, riskiness of both banking sector is almost stable in terms of “total deposits/total assets” ratio during the 2008 global economic crisis.

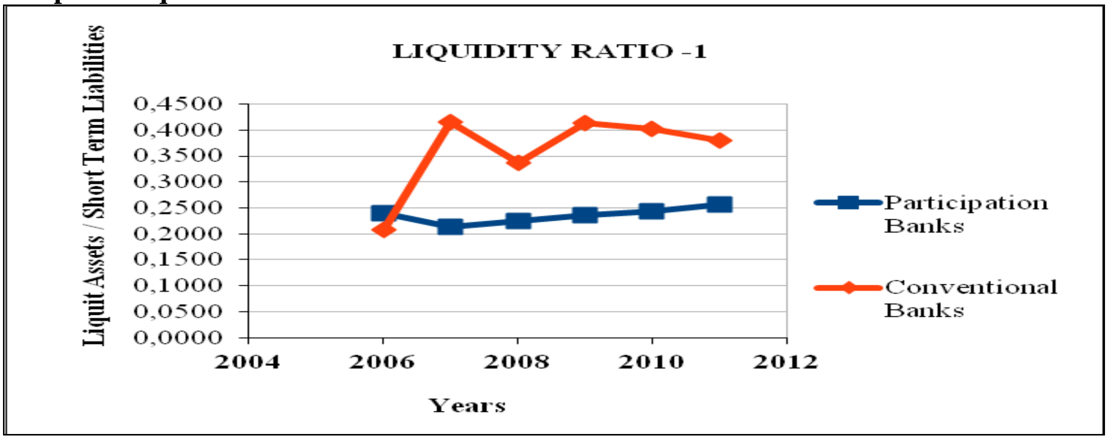
Graph 4. Total Deposits / Total Assets



Source: It has been calculated by the author

The graph 5 shows "liquit assets/short term liabilities" ratio of the conventional and participation banking sectors during the 2006-2011 term. As it is seen on the graph, liquidity of conventional banking sector is decreasing and is not stable, in contrast, liquidity of participating banking sector is slightly increasing and is also stable during the analysis term which inclueds the 2008 global economic crisis.

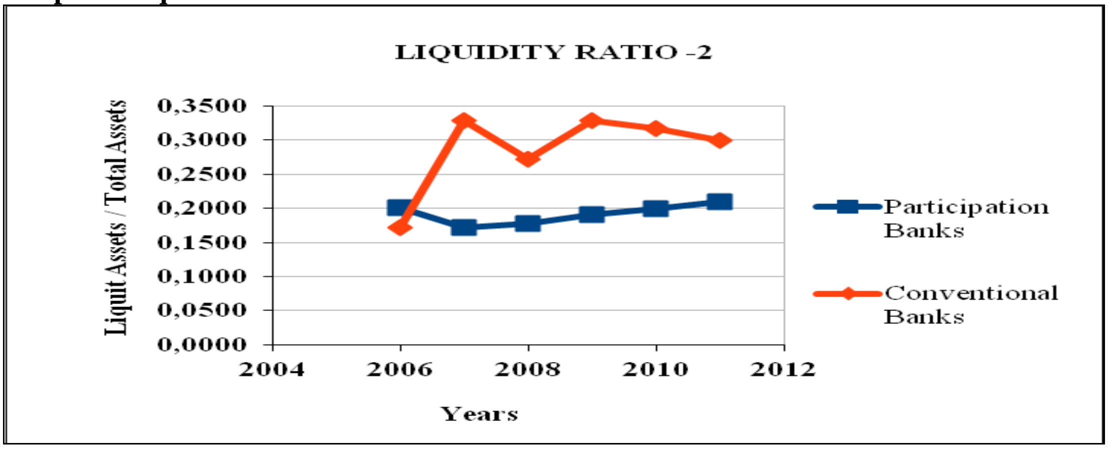
Graph 5. Liquit Assets / Short Term Liabilities



Source: It has been calculated by the author

The graph 6 shows "liquit assets/total assets" ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows liquidity condition of these sectors. As it is seen on the graph, liquidity of conventional banking sector is decreasing and is not stable, in contrast, liquidity of participating banking sector is slightly increasing and is also stable during the analysis term which inclueds the 2008 global economic crisis.

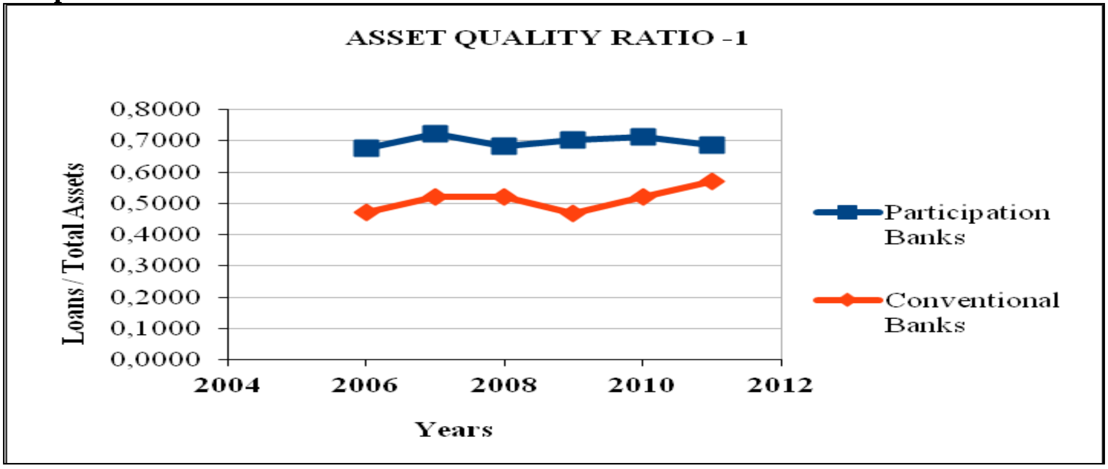
Graph 6. Liquit Assets / Total Assets



Source: It has been calculated by the author

The graph 7 shows "loans/total assets" ratio of the conventional and participation banking sectors during the 2006-2011 term. This ratio shows asset qaulity of these sectors. As it is seen on the graph, quality of both banking sector is almost stable during the analysis term which inclueds the 2008 global economic crisis.

Graph 7. Loans / Total Assets



Source: It has been calculated by the author

6. Conclusion

The aim of this study is to analyze how the stability of the participating banking sector against the economic crisis is. For this purpose, I have tried to compare the stability between conventional and participating banking sectors of Turkey during the 2008 global economic crisis. Some financial ratios belong to these banking sectors and trend analysis method have been used in the yearly term of 2006-2011.

The financial ratios used in the analysis are consist of *profitability ratios*; net income / total assets, net income / total deposits, *riskiness ratios*; total payables / total assets, total deposits / total assets, *liquidity ratios*; liquit assets / short term liabilities, liquit assets / total assets, and *asset quality ratio*; loans / total assets. During the analysis term which inclueds 2008 global economic crisis, results based on the financial ratios as follow;

Profitability; Profitability of the conventional banking sector decreases and is also not stable, in contrast, profitability of the participating banking sector also decreases but is stable.

Riskiness; While riskiness of the conventional banking sector increases, riskiness of the participating banking sector decreases. This can be as a result of financial difficulties of the conventional banking sector.

Liquidity; Liquidity of the conventional banking sector decreases and is also not stable, in contrast, liquidity of participating banking sector slightly increases and is also stable.

Asset quality ratio; Asset quality of both banking sectors is almost stable during the analysis term.

In general, this study shows that participating banking sector seems stable during the 2008 economic crisis, but conventional banking sector is not in terms of profitability, riskiness and liquidity. But, in terms of asset quality, both sectors seem almost similiar and stable.

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