Analysis of Ethical Banking in Turkiye

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Abstract: *Purpose:* Social finance has increasingly been discussed in recent years as a potential remedy for socio-economic issues such as wealth inequality, economic crises, and poverty created by capitalism. In response to these challenges, ethical banking institutions have emerged in developed Western economies, whereas in Eastern contexts, Islamic finance has underscored its social as well as economic functions. Core components of social finance - including sustainability, corporate social responsibility, and environmentally oriented projects - have contributed to strengthening public trust in the banking sector. This primary purpose of this study is to assess the social finance and ethical banking practices observed in developed countries and to evaluate their relevance for participation banks in Türkiye.

Methodology: The study begins by conceptualizing social finance and ethical banking first. It then conducts a comparative analysis of the financial ratios of conventional banks and participation banks using analysis of variance, drawing on the conceptual parallels between Islamic banking (referred to as "participation banking" in Türkiye and ethical banking practices. Finally, regression analysis is employed to examine profitability and crisis-period volatility.

Findings: The variance and regression analyses indicate that participation banks operate according to a fundamentally different business model from that of conventional banks. The findings demonstrate that participation banks pursue objectives aligned with social finance rather than prioritizing profitability alone. Moreover, the results confirm that participation banks exhibit lower volatility during economic crises and embody core principles of ethical banking through their relative institutional stability.

Originality: This study constitutes the first comprehensive, and quantitative investigation of ethical banking within the Turkish context and provides empirical evidence that participation banks engage in practices consistent with ethical banking principles. In the light of the existing global literature on ethical banking, the study offers an academically significant contribution to the understanding and development of Turkish banking sector.

Keywords: Social finance, Ethical banking, Islamic finance, Participation Banking.

1. INTRODUCTION

The last century has been marked by the capitalist system's inability to provide effective solutions to persistent social problems, leading to rising inequalities, a distorted understanding of justice. Public distrust of the banking sector, particularly following the 2008 global financial crisis, has further fueled interest in alternative financial models in Western economies. In this context where social solidarity, cooperation, sustainability, and environmental awareness have become central themes, developed countries have introduced the concepts and practices of social finance and ethical banking.

Social finance and social banking aim not only to meet the current needs of the real economy and society but also to integrate social, cultural, ecological, and economic sustainability into financial decision-making processes. In the wake of recent crisis, a growing number of people have realized that social banking places greater emphasis on social development than conventional and mainstream banking. Scholars emphasize that social banking can offer valuable insights into preventing future systemic crises (Goyal and Joshi, 2011:p.53). In addition, While Benedikter (2011) states that, unlike conventional banks' sole focus on profit maximization, social banking embraces the triple principle of profit-people-planet.

Participation banks operating in Türkiye since the 1980s, share many key characteristics with ethical banking. They support the real economy, finance the market with profit-loss sharing methods, and demonstrate greater stability during periods of financial crises.

The research then provides a detailed review of the literature on social finance, ethical banking, and participation banking, establishing the conceptual foundations of the study. This is followed by a methodology section that summarizes the analytical framework, data sources, and statistical procedures used (including analysis of variance and regression). The next section presents the empirical findings from the comparative analysis of banking performance. Finally, the conclusion section synthesizes the results, discusses their implications for the Turkish banking sector, and suggests directions for future research. This structure facilitates a comprehensive examination of the relationship between participation banking and ethical banking principles by providing a consistent progression from conceptual background to empirical evaluation.

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2. ETHICAL AND SUSTAINABLE ALTERNATIVE ECONOMIC SYSTEMS

2.1. Reassessing Social Finance: Conceptual Foundations

Social finance has gained prominence as an alternative framework largely due to the social problems that come along with capitalism. Scholars have long identified a range of systemic problems - including income inequality, imbalanced wealth distribution, colonial legacies, excessive corporate power, recurrent economic crises, poverty, urban deprivation, and social conflict (Piketty, 2013 & Galbraith, 1980 & Ersoy, 2015, 2018 & Smith, 1950 & Kindleberger, 2013 & Bulut, *et al.*, 2019). Although all these problems are regularly debated under the themes of "human rights" and "environmental protection", governments often refrain from adopting meaningful solutions, primarily because slowing industrialization or transitioning toward environmentally responsible production entails significant financial costs. Moreover, only a limited number of academics and policymakers critically address these structural concerns (Bulut, 2015:113).

In response to these challenges, scholars have proposed various corrective measures, such as reforms in taxation to redistribute wealth, policies promoting social justice in contexts of migration, and the establishment of regionally integrated political and economic structures (Rawls, 1999 & Sen, 2000 & Karataş, 2019 & Piketty, 2013 & Stewart, 1998).

Western economic systems - like those of other civilizations - were shaped by inherited knowledge and cultural values, eventually evolving into forms commonly associated with capitalism. While there is general agreement that contemporary capitalism has produced material prosperity (Bulut, 2020:117), this prosperity has been disproportionately concentrated among specific groups, leaving large segments of the global population in economic distress. Social finance, in contrast, places societal welfare at the center of financial decision-making rather than prioritizing the interests of a narrow elite. For this reason, Benedikter (2011) characterizes social banks as “conscientious banks,” emphasizing their commitment to supporting disadvantaged groups and advancing social, environmental, and ethical objectives.

In the context of global development, both Western and Islamic societies have undergone parallel transformations. The Western world, having achieved technological dominance, has largely decoupled material progress from its traditional moral foundations, whereas many Islamic societies continue to grapple with the challenge of reviving their ethical and intellectual traditions. Following World War II, countries in the Islamic world gradually attained political independence, even as the West classified nations into hierarchical economic categories such as “developed” and “underdeveloped” (Zaim, 2014:15-16). By the late twentieth century, however, Islamic economies began to enter global financial markets drawing on their historical experiences and developing alternative models aligned with their value systems.

Several concepts that emerge and are discussed with social financial institutions - including sustainable finance, corporate social responsibility (CSR), and green finance – have also gained relevance within Islamic financial institutions. The principles of Islamic banking inherently align with CSR expectations, as the axioms of Islamic economics emphasize social welfare, environmental stewardship, and human-centered development. Consequently, Islamic finance is expected to maintain not only compliance with Sharia standards but also a strong commitment to CSR practices (Asutay, 2015:p.136).

2.2. Ethical Banking in Theory and Practice: Standards, Strategies, and Social Impact

While the concept of ethics is defined as the philosophy of the existence of moral and tradition rules in human actions and behaviors, economic-ethics is expressed as the form of individual action, social attitudes and socio-economic institutions' behavior in the economy (Mermod, 2008:p.501). Ethical banking, on the other hand, is defined as banking businesses that specialize in financing companies in the social economy, NGOs as well as the companies that act responsibly towards their social and natural environment. On the other hand, they are also accepted as organizations that try to finance economic activities with a positive social impact.

While the discussions on ethical banking seem to be very new, the first examples of ethical banking worldwide date back to the “Montes de Piedad” in Europe in 1462. Savings institutions in the form of credit unions and savings banks emerged from these institutions in the second half of the 18th century. In 1976, Grameen Bank, the first ethical bank, was established in Bangladesh. (Yunus, 2004). These banks have been instrumental in helping the poor use their own labor and creativity to satisfy their basic needs through micro-loan. Sewa Bank in India, Caisse Solidaire in France and South Shore in Chicago, Triodos Bank in the Netherlands in 1980, became the pioneer of ethical banking in Europe. In Spain, on the other hand, after early attempts to create an alternative bank called Association for Ethical and Ecological Banking (ABSE) failed for various reasons, the Trust

Project reached an agreement with Triodos Bank to launch the first social bank in Spain in 2003. For this reason, 2003 can be considered as the birth of ethical banking in Spain.

In conventional and ethical banking, internal audit institutions for banks do not conduct an audit of the same content regarding the implementation of ethical principles. For conventional banks, issues such as whether the products produced by the individuals or institutions to which the loan is provided are detrimental to health, whether the customers damage the environment, whether loans are provided to sectors that adversely affect the nature such as arms production, are not examined. However, for ethical banking, to whom and for what purpose the loan is provided is one of the most important factors. (Gündoğdu, 2018: p.267). Sustainable banks shape the social aspect of their savings, responding to the needs of both savers and investors, as well as assets that fall outside of a common banking system. They aim for a positive social or ecological impact in the process of raising and using capital by investing in ecological agriculture, renewable green energy, social economy assets including social enterprises. In addition, investment motives are determined by economic factors on the one hand and social factors on the other hand. (Mikołajczak, 2017 & San-Jose, *et al*., 2011). The growth of the ethical investment industry over the past three decades is another indicator of the emphasis on the social and ethical behavior of companies. Companies have a competitive advantage that they believe they can consider ethically and socially (Porter & Kramer, 2002). They anticipate that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brands, increase their corporate reputation in customers' view and suppliers, and attract and retain a skilled workforce. (Turban & Greening, 1997).

Projects financed by ethical banking are based on the following principles:

- ***Equality:*** Funded projects and companies should promote the active participation of all members of the organization.
- ***Employability:*** Funded projects and companies should promote stable employment and access to employment for groups at greatest risk of exclusion.
- ***Environment:*** Funded projects should guarantee sustainable growth.
- ***Cooperation:*** Funding should support projects and companies that promote internal cooperation (between the organization and its employees) and external cooperation (with other organizations).
- ***Environmental commitment:*** Funded projects and companies should contribute to the local community and others, and support the activities to help the community.
- ***Reinvestment:*** Funded projects must reinvest some of their profits into society.

Another problem with ethical banking is that, despite significant overlap between the principles underlying many institutions within the ethical finance sector, the ethical banking sector has not fully engaged with the Islamic finance sector to date. The Global Ethical Finance Forum, held in Edinburgh, Scotland, on September 1-2, 2015, was a first step in demonstrating the need for dialogue between these sectors (Goud, 2015: p. 2).

Among the most well-known organizations operating worldwide and conducting research on the sustainable, ethical, or social banking sector are GABV (Global Alliance for Banking on Values), FEBEA (European Federation of Ethical and Alternative Banks), INAISE (International Association of Investors in the Social Economy), WWB (Women's World Banking), and TIM (Triodos Investment Management). Estimates suggest that there are approximately 2,000 ethical banks "focused on meeting human needs in the real economy."

Conventional banks use these ethical criteria as a marketing tool to increase profits. According to Cowton and Thompson (2000), ethical banking initiatives attempt to differentiate themselves from conventional banking by offering fewer products and having different operating criteria than conventional banks. The accompanying table summarizes the key differences between ethical and conventional banking (Surroca *et al*., 2010; Karl, 2015; San-Jose, 2011):

In Table **2.1**, the differences between ethical banking and conventional banks are compared thoroughly. In summary, ethical banks differ from conventional banks both in terms of their establishment purpose, processes, activities, projects they finance and targets.

2.3. Islamic Finance in Action: Operational Dynamics of Participation Banking

Over the past three decades, Islamic banking has emerged as one of the fastest growing industries. Islamic banking is also characterized by ethical norms and social commitments as a system based on the ethical and moral framework of Islamic law (Ahmad, 2000). There is a moral filter based on definitions of

Table 2.1: Differences Between Ethical and Conventional Banking

	Conventional Banking	Ethical Banking
Purpose of Activity	to make a profit only	To create opportunities for the sustainability of the bank
	To focus on market value for shareholders	To achieve success in social and environmental impact
	To provide high performance thanks to managers	To put the economy at the service of the people
Investment criteria and commitment principle	Return on equity (ROE), Return on assets (ROA) and risk diversification	Negative criteria: refusing to finance certain products (for example, weapons) and companies violating human rights
		Positive criteria: desire to finance companies and projects transforming the society positively
		Implementation of principles of ethical banking: transparency, consistency, participation and commitment
Lending criteria	Purely financial	Evaluation of the project financially through the ethics committee
	Guarantees obtained from applicants	
Fund target	Financially profitable projects	Projects that have values shared by partners and customers
Profit	To reward priority target shareholders	Most ethical banks don't pursue profits; profits are reinvested into social or environmental projects
Organization model	One share equals one vote	In cooperative banks (majority), one person equals one vote
Transparency	Regular information is not provided for funded projects	Regular bulletins are published about funded activities
Consistency	Projects that do not match customer values are also funded	Investment is made in activities that reflect the values of customers
Participation	Only shareholders who contribute adequate capital participate	Most banks promote and facilitate participation
Customers and their deposits	Customers cannot decide how their money will be used	Partners or customers know and decide how their money is used

halal (permissible) and haram (forbidden and undesirable) operating at different levels, affecting the conscience of the entrepreneur and the firm, promoting a positive social environment for society and providing a suitable legal framework (Chapra, 1992). Accordingly, Islamic banks cannot finance any projects that contradict the moral value system of Islam, such as a breweries, casinos, nightclubs, weapons or other activities known to be harmful to society.

Given the global transformation, a key focus for customers in both the West and the East is whether financial institutions and banks strive for a just and balanced society. While a Muslim customer may seek Sharia compliance when choosing an Islamic bank for banking services, a non-Muslim customer will likely prioritize ethical banking as a key characteristic of any financial institution (Gilani, 2012: p. 86). At the same time, given the rapid global rise in Islamic banking in recent years, it seems crucial for Islamic banks to avoid interest-bearing practices deemed unfair to their customers. This is because profit sharing is not the interest earned or paid by an Islamic bank, but rather a proportionate distribution of profits based on the banks' actual performance (Dusuki and Nurdianawati, 2007). This requires social justice and accountability, always aiming to establish distributive justice free from exploitation.

Ethics in Islamic finance arises from the concept of sharia. Sharia is a system of morals and values based on the teachings in the Qur'an and Sunnah that are the two main sources of reference in Islam (Laldin & Furqani, 2015: pp.3-4). It establishes guidelines for all aspects of human life, including personal, social, political, economic, financial and intellectual. It provides methods and means for a complete and inclusive manner of life that includes beliefs and practices (creed), personal conduct and morality (morality), human-to-God worship (worship), and human-to-human relations in business and social affairs (mua'malat) (Abdul Rauf, 2002). Besides, Islamic banks operate on the basis of banks' equity sharing, risk sharing (profit-loss sharing) (Khan, 2017) according to the principles of cooperation. The banks that are parts of a community entity that contributes to the public good, are responsible for promoting honesty, integrity, accountability, responsibility and transparency among all members of society (Maali & *et al*., 2003).

While ethical banks develop effective and responsible monitoring mechanisms, there is a separate external audit that carries out the same activity in Islamic banks. Islamic banks are supervised through Shari'ah Supervisory Boards and these institutions also have the right to authorize CSR activities and reporting. Reporting on CSR activities is an important aspect of monitoring. Due to the nature of ethics in business life, a moral economy is essential and banking is expected to achieve such targets. (Dorasamy, 2013: p. 779).

Participation Banks are institutions that were established in Türkiye with Islamic finance principles and have been operating in accordance with production, social benefit and moral values through Islamic finance products since the 1980s.

The financial practices of Participation Banks, today, include the commercial (murabaha) and rental (leasing) contracts the most. In fact, transactions in Participation banking are the transactions in the form of murabaha, mudaraba, musharakah, ijara (leasing), salam, tawarruk and sukuk. Murabaha is the trade of goods; mudaraba is profit sharing; musharakah is to establish a company or to be a partner in an established company (equity); ijarah (leasing), on the other hand, means getting the rent by providing movable or immovable property. (Zaim, 2014:41-42). Besides, salam, and tawarruk, which are not used much, are also available as controversial new products.

Many scholars believe that Islamic banking (participation banks) is based on the idea of ethical banking (Dhumale and Sapcanin, 2002; Lewison, 1999). In this way, the socioeconomic development provided by ethical privileges can ensure that Islamic financing methods are taken into consideration, and Islamic financial institutions can become development institutions beyond serving their customers by obtaining funds from non-prohibited real sectors. In addition to this, they play an important role in the economic and moral rise of the Islamic society, while ensuring that it acts on the basis of Shari'a law (Siddiqi, 1997).

3. LITERATURE

While alternative economic systems are being discussed globally, studies are ongoing to explore the possibility that Islamic banking could be a solution. Consequently, participation banks are being criticized, whether consciously or unconsciously, for being the same as conventional banks. However, Islamic finance, a philosophy that has operated in economic life for centuries and operates on the principle of spreading social welfare not only to certain capital groups but also to the entire society, encompasses social finance. Since the study does not address the differences between social finance and Islamic Banking, this study does not examine the interest yield of social finance and its drawbacks, or the reasons why Islamic Banking is based on profit and loss. The aim is to reveal similar practices of social finance, an alternative to capitalism, in participation banks, given the decline in trust in banks during crises.

Code of ethics in banking in Türkiye are published and followed by the BRSA. Since these values are more abstract issues such as honesty, impartiality, reliability, transparency etc. in banks, it is also difficult to audit and control them. There are some studies on ethical values in banking for only bank employees and managers in Türkiye, but they are very limited.

In the domestic studies conducted by Hortaçsu and Günay (2004, 2008 and 2011) on bank managers and senior managers, it has been determined that the ethical awareness of the employees is high. According to the research by Balkan (2006) and Mermod (2008), it has been examined whether the employees in the banking sector implement ethical values. It has been emphasized that there are no ethical problems in most of them, and that some departments (such as marketing) needs improvement in this regard. Again, in Lapacı's study (2015), ethical principles on banks with foreign capital has been investigated and it has been determined that they implemented ethical principles such as honesty, impartiality, reliability, transparency, and observance of social benefit. On the other hand, in Gündoğdu's study in 2016, ethical banks and conventional banks in the world have been examined and it has been determined that banks have moved away from ethical principles along with increasing competition.

On the other hand, in studies by Green (1989); Jeucken (2002); Cowton (2002); Weber, Inglehart & Welzel (2005); Carrasco (2006); Bozovic (2007); Goyal & Joshi (2011); Ram, Khoso, Jamali & Shaikh (2011); Weber & Remer (2011), the effects of ethical values in banking on the performance of the bank have been examined. According to the conclusions reached, it has been found that a company's ethical understanding and practices affect its reputation, bring success in the long terms, many investors today want these values, and banks, in return, focus on sustainable development. They also found that when a bank implements certain social and ethical policies, they can solve problems in issues such as human resources and employee perception. Again, it has been observed that most social banks overcome the crisis in a much stronger manner compared to conventional banks, and none of the social banks are saved by public funds.

In the studies by Benson *et al.* (2006); Dusuki & Abdullah (2007); Ghani (2008), the reasons why Islamic banks are preferred were investigated and they were compared with conventional banks. Consequently, it has been determined that Islamic banks are preferred not only for religious preferences, but also for their interest in, proximity to and service quality for their customers.

Again, in the studies by Halamka (2015); Sanchis & Pascual (2017); Climent (2018), two different types of conventional banks and ethical banks were compared. Since ethical banks are not the banks focused on profitability, it has been determined that profitability is lower, but less affected by the crises and the recovery after the crisis is faster.

A comprehensive review of the literature reveals that most studies have examined the impact of ethical principles on banking and the behavior of stakeholders (customers, bank managers and shareholders) in the banking sector, mostly qualitatively. An examination of the ethical assessment of all stakeholders reveals that conventional banks deviate from ethical principles (transparency, honesty, equality with their employees, integrity, etc.) during times of crisis. On the other hand, ethical banks worldwide prioritize social and environmental factors, acting in accordance with their founding principles and ensuring their economic sustainability.

What makes our thesis significant is the limited number of studies conducted on "social and ethical banking" in Türkiye. This study emphasize that ethical banking is also implemented in our country and defines the values that stand out as ethical banking globally. It also emphasizes that participation banks in Türkiye have been conducting ethical banking activities consistent with production, social benefit, and moral values through Islamic finance products since the 1980s. Furthermore, profitability analyses demonstrate that profitability is not the primary goal of participation banks, but rather a necessity to ensure sustainability in the banking system and stability during crises.

4. EMPIRICAL RESEARCH

Banks worldwide that embrace ethical practices have established various affiliate organizations under the guise of "ethical," "social," "value-driven," and "sustainable" to connect their members and support other banking practices. In this thesis, the analysis is grounded in the "Sustainable Banking Principles" as categorized by the GABV, one of the largest organizations. The financial, social, and environmental business model approaches of GABV-affiliated banks worldwide are linked by principles such as real economy-based operations (F/S), long-term customer relationships (F/S), transparent reporting, and resilience to external challenges.

We previously stated that profitability is not the primary goal of banks that adhere to ethical principles; they aim to serve human needs related to the environment, and financial profitability is merely a necessary condition for achieving this. Sustainability does not mean maximizing profits (Halamka, 2015: p. 18). This time, the Sustainability Banking Scorecard (GABV, 2013), which refers to the structure synthesized by the GABV, was used for the analysis. In this assessment, only quantitative factors (financial ratios) were considered, as the core requirements (mission statement, reporting transparency, etc.) did not differ for the two banks.

The empirical research is divided into four interrelated parts; dataset, methodology, analysis and discussion of the results.

4.1. Data Set

The purpose of the thesis's statistical analysis is to determine which banks in Türkiye implement these values and to assess their implications for financial figures and resulting outcomes. Participation banks in Türkiye share similar founding philosophies to ethical banking principles. Criteria such as not providing financing to sectors that negatively impact society such as companies producing weapons, alcohol, casinos, nightclubs, and tobacco, not prioritizing profit, and financing the real economy are all aligned with ethical banking criteria.

Therefore, in this analysis of banks in Türkiye, banks were divided into two groups when creating the data set. These were classified as "Participation Banks," which are value-oriented or ethical banks, and "Conventional Banks," which are banks focused on profitability. While such a limitation was not required in the analysis, comparable statistical information on non-financial impacts was not available.

For this purpose, audited annual bank financial statements published on the websites of the Banks Association (2021) and the Participation Banks Association (2021) of Türkiye were used in the analyses. The database was created with 21 years of data from 10 banks in total, including 3 participation banks and 7 conventional, and the number of observations is 210.

4.2. Methodology

In Hypothesis 1, whether participation banks and conventional banks have a different financial profile in Türkiye has been tested by analysis of variance.

We use the variable set from the GABV report to formulate Hypothesis 1. There is an interdependence between a bank's financial profile and the strategic choice of its banking business model. Therefore, the analysis of financial profiles should reveal whether a universal ethical business model exists.

Furthermore, it is important to consider loans, financial assets as separate items when developing the variable set. This is because the "Financial Assets" variable includes transactions with high uncertainty and risk, such as treasury bills, bonds, bonds for sale, and derivatives. These uncertain (garar) instruments are rooted in the financial economy rather than the real economy, and this distinction is important to clarify whether they are compatible with an ethical business model.

On the other hand, Hypothesis 2, it has been tested firstly with descriptive statistics and then with panel data - regression analysis that participation banks have lower profitability compared to conventional banks, but also have lower volatility and are more stable banks by recovering faster after crises.

4.3. Hypothesis 1

"The financial profile of participation banks in Türkiye differs significantly from those of conventional banks."

The purpose of testing Hypothesis 1 is to determine whether there is a certain ethical business model in participation banking in Türkiye. Despite some potential similarities in financial profiles, participation banks in Türkiye are believed to have an ethical business model that can be considered different from others.

4.3.1. Testing Hypothesis 1

In this study, we first defined some descriptive statistics that reveal the financial structure of the banks, such as the loan-to-asset ratio, deposit-to-asset ratio, equity-to-asset ratio, capital adequacy ratio. Participation banks and conventional banks were then compared using variance analysis, and then subjected to a t-test.

Based on the study of Roengpitya, Tarashev, and Tsatsaronis (2014: p.59) and the study of Ayadi, De Groen (2014: p.1) for Hypothesis 1, a basic observation variable set has been created in Table **4.1.** On the other hand, three capital measures were added to the variables in the sampled studies. - Equity, Tier 1 Capital and Tier 1 Capital Adequacy Ratio.

Table **4.2** compares the financial structures of participation banks and conventional banks using variance analysis. While the loan and deposit ratios of participation banks' assets are 67% and 75%, respectively, in conventional banks, they are observed to be 50% and 61%, respectively. This indicates that participation banks focus on the real economy. Furthermore, the standard deviation in the loan ratio is found to be *1.7 times higher* in conventional banks than in participation banks. This difference becomes even more significant, when considering the large number of observations on conventional banks. While the financial asset ratio is 4% in participation banks, it is 28% in conventional banks, indicating that conventional banks also invest significantly in the financial economy. However, no significant difference was found in interbank transactions and capital ratios.

Besides, a t-test was conducted to determine whether the financial structures of participation banks differ from conventional banks and the results

Table 4.1: Financial Profile Variables

Variables	Description (Bankscope)
Loans	Loans / Total Assets
Financial Assets	(Available-For-Sale Financial Assets + Financial Assets Held to Maturity) / Total Assets
Interbank Lending	(Bank loans and advances + reverse repo + cash collateral) / Total Assets
Interbank Borrowing	(Bank deposits + repo + cash collateral) / Total Assets
Other Liabilities	(Other deposits + Short term borrowings + Long-term financing) / Total Assets
Deposits	Customer Deposits / Total Assets
Shareholder`s Equity	Total Equity / Total Assets
Tier 1 Capital Ratio	Tier 1 Capital Ratio
Capital Adequacy Ratio	Tier 1 Capital / Total Assets

Table 4.2: **Financial Profile of Banks (Descriptive Statistics)**

In Percent to Total Assets	Participation Banks			Conventional Banks		
	Average	Std. Deviation	Frequency	Average	Std. Deviation	Frequency
Loans	66.8%	9.6%	63	50.1%	16.7%	147
Financial Assets	4.4%	6.3%	63	27.9%	15.2%	147
Interbank Lending	8.6%	4.7%	63	5.8%	4.6%	147
Interbank Borrowing	8.1%	7.8%	63	17.1%	6.9%	147
Other Liabilities	1.7%	1.1%	63	2.37%	1.8%	147
Deposits	74.8%	9.1%	63	61.1%	9.0%	147
Shareholder`s Equity	10.0%	2.7%	63	11.0%	3.2%	147
Tier 1 Capital	14.4%	3.0%	63	18.2%	7.4%	147
Capital Adequacy Ratio	8.4%	2.4%	63	9.6%	4.2%	147

($t=-7.7220$; $p=0.0000$) showed that there was a statistically significant difference at the $p<0.05$ level between the financial profiles of the banks.

4.3.2. Findings

Halamka’s (2015) first hypothesis found that the financial profiles of ethical and conventional banks worldwide are similar and that they lack a universal ethical business model. However, when ethical banks are evaluated separately by geography and specialization, it was determined that microfinance-based ethical banks differed significantly from conventional banks in some years. Similarly, Climent's 2018 study noted that although ethical banks offer fewer products, they have a high social impact and distinct operating models.

In our study, we tested and confirmed the notion that "participation banks in Turkish Banking System have a different financial profile than conventional banks", and these findings also demonstrated the explanatory nature of our sample.

Consequently, the resulting similarities and differences provided supporting data for the subsequent analysis. A more detailed examination of these differences in Hypothesis 2 will reveal how the operation of participation banks affects bank profitability and volatility.

4.4. Hypothesis 2

“The profitability of participation banks in Türkiye is significantly lower than that of conventional banks.”

Hypothesis 2 is directly related to Hypothesis 1. Therefore, after controlling for financial profile variables, Hypothesis 2 tests the effects of ethical banking practices on profitability and fluctuations in profitability, *i.e.*, volatility.

4.4.1. Testing Hypothesis 2 (Descriptive Statistics)

For this study, some descriptive statistics, such as return on equity and return on assets, and their standard deviations from banks' profitability ratios, were first determined. The profitability of participation banks and conventional banks was then compared using variance analysis. Finally, the evolution of profitability ratios over the years was illustrated in figures and then subjected to a t-test.

Table 4.3: **Profitability and Volatility Variables**

Variables	Description (Bankscope)
Return on Assets	Net Profit / Two-yearend average of Total Assets
Return on Equity	Net Profit / Two-yearend average of Total Equity
Standard Deviation (ROA)	5 year standard deviation of Return on Assets
Standard Deviation (ROE)	5 year standard deviation of Return on Equity

Due to the profitability analysis to be tested in Hypothesis 2, the profitability and volatility measures of the studied financial profiles are also introduced in Table **4.3.**

In Tables **4.4** and **4.5** above, we see the average profitability and volatility results of conventional and participation banks.

According to the statistical data in Table **4.4**, the average return on assets for conventional banks is 1.45% and its standard deviation is 1.87%, whereas the average return on assets for participation banks is lower at 1.17%, but the standard deviation is significantly lower. While the number of observations for conventional banks is higher here, it is also noteworthy that the standard deviation is higher than the average, indicating a significantly higher volatility in profitability. This suggests that participation banks are stable banks.

Table 4.4: Return on Assets

Percentage (%)	Average	Std. Dev.	Frequency
Conventional Banks	1.45%	1.87%	147
Participation Banks	1.17%	1.14%	63
Total	**1.37%**	**1.69%**	**210**

Table 4.5: Return on Equity

Percentage (%)	Average	Std. Dev.	Frequency
Conventional Banks	13.10%	22.08%	147
Participation Banks	11.83%	12.08%	63
Total	**12.72%**	**19.60%**	**210**

Table **4.5** shows that the average profitability for conventional banks is 13% and the standard deviation is 22%, which is also higher than that of participation banks. Furthermore, the significantly higher standard deviation indicates the high volatility in conventional banks. Given the much higher number of observations compared to participation banks, this high deviation becomes even more significant. These statistics demonstrate that Hypothesis 2 is valid for participation banks in the Turkish Banking System.

The following figures (Figures **4.1**, **4.2**, **4.3**, and **4.4**) take the research to a further stage, showing the evolution of loan and deposit asset ratios and profitability ratios over the years. The impact of crisis periods on these developments can also be seen in these developments.

Figure **4.1** compares the loan-to-asset ratios of participation banks and conventional banks between 2000 and 2020. The figure shows that both conventional and participation banks were affected by the 2001 crisis, but during the crisis years, the loan-to-asset ratio of participation banks decreased from 64% to 44%, while that of conventional banks decreased from 35% to 25%.

Furthermore, it is observed that participation banks reached their pre-crisis levels within 2-3 years, meaning they experienced a faster recovery, while conventional banks began to recover over a four-year period.

On the other hand, the effects of the 2008 global crisis were more severe for conventional banks in 2009, while for participation banks, the decline persisted over the years.

While the loan-to-asset ratio in both banking types tended to increase until 2008, this ratio has steadily declined in participation banking since 2009. The loan-to-asset ratio of participation banks was higher than that of conventional banks until 2017, but it decreased after 2018. A t-test was also conducted to determine whether the loan-to-asset ratio of participation banks was structurally different from that of conventional banks. The results ($t = 9.138$; $p = 0.0000$) showed that the loan-to-asset ratio of participation banks was statistically significantly different from that of conventional banks ($p < 0.05$).

Figure **4.2** compares the deposit-to-asset ratios of participation banks and conventional banks between 2000 and 2020. The figure shows that the deposit-to-asset ratio of participation banks ranged from 65% to 85%, while that of conventional banks ranged from 55% to 65%.

While the deposit/asset ratio of both bank types decreased steadily until 2017, these ratios increased in

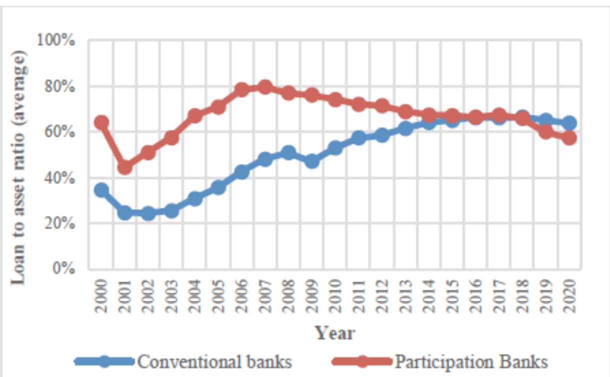

Figure 4.1: Loan to Asset Ratio.

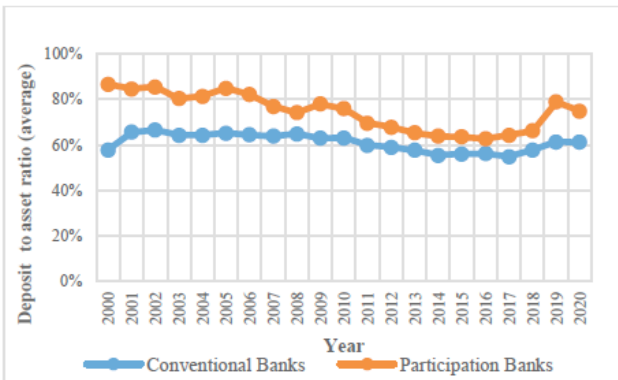

Figure 4.2: Deposit to Asset Ratio.

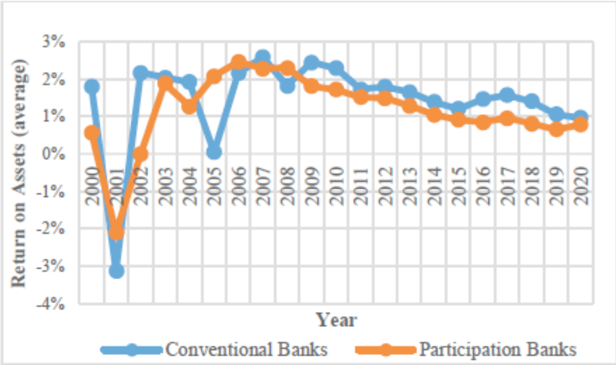

Figure 4.3: Return on Assets.

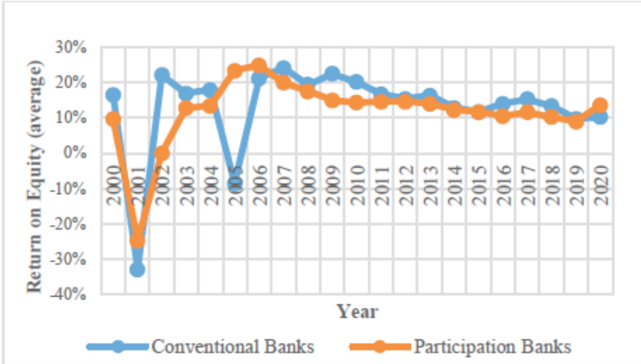

Figure 4.4: Return on Equity.

2018 and 2019, and decreased slightly in 2020. In addition, a t-test was conducted to determine whether the deposit/asset ratio of participation banks was structurally different from conventional banks, and the results (t=10.021; p=0.0000) showed that the deposit/asset ratio was statistically significant at the p<0.05 level.

Figure **4.3** compares the return on assets of banks between 2000 and 2020. The figure shows that the return on assets of both banking types was deeply affected by the 2001 crisis. The return on assets of participation banks decreased from 0.6% to -2.1%, while a larger decrease was observed in conventional banks, from 1.8% to -3.1%. Return on assets, which had an increasing trend until 2008, has been declining steadily since 2009. A t-test was conducted to determine whether the banks' return on assets were structurally different, and the results (t = -1.091; p = 0.276) showed that the return on assets of participation banks did not have a statistically significant difference at the p<0.05 level. However, when a t-test was performed covering only 2009 and later (t=-4.125; p=0.0000), it was seen that the return on assets of participation banks was statistically significantly different from the return on assets of conventional banks (p<0.05).

A comparison of banks' return on equity in Figure **4.4** reveals that the return on equity of both types of banking was profoundly affected by the 2001 crisis. However, the return on equity of participation banks decreased from 9.7% to -24%, while the return on equity of conventional banks experienced a much larger decline, from 16.5% to -32.9%. A t-test was conducted to determine whether banks' return on equity was structurally different, and the results (t=-0.429; p=0.668) indicated that the return on equity of participation banks was not statistically significant. However, a further t-test covering only 2009 and later (t=-2.355; p=0.020) showed that the return on equity of participation banks was statistically significant compared to that of conventional banks at the p<0.05 level.

Consequently, Figures **4.3** and **4.4** show that banks that adopt ethical banking practices have low profitability and low volatility in profitability.

4.4.2. Econometric Model (Panel Data-regression analysis)

Firstly, the following econometric model developed by Naudé and Saayman (2005) was used to test the claim that "ethical banking practices cause low profitability and low volatility in profitability" in participation banks in Türkiye (Yüksel & *et al.*, 2018: p.41):

$$Y_{it} = \alpha + \sum_{k=1}^{K} \beta_k X_{kit} + \varepsilon_{it} \quad (1)$$

Here, Y represents the dependent variables of profitability (return on assets and return on equity) in the two different models to be estimated, while X is the matrix of independent variables. In the equation, the constant term α represents the coefficients of the independent variables β, and ε represents the error term. Furthermore, i represents each bank in the data set (horizontal section), and t represents the years (time series) in the data set. Substituting the variables to be used in the model in equation (1), the following equations (2A) and (2B) are obtained:

$$AK_{it} = \alpha + \beta_1 MAO_{it} + \beta_2 OAO_{it} + \beta_3 SYR_{it} + \beta_4 K_{it} + \beta_5 K1_{it} + \beta_6 K2_{it} + \beta_7 K3_{it} + \varepsilon_{it} \quad \text{(2-A)}$$

$$OK_{it} = \alpha + \beta_1 MAO_{it} + \beta_2 OAO_{it} + \beta_3 SYR_{it} + \beta_4 K_{it} + \beta_5 K1_{it} + \beta_6 K2_{it} + \beta_7 K3_{it} + \varepsilon_{it} \quad \text{(2-B)}$$

For each year $'t'$ and bank $'i'$ in the equations, AK represents the return on assets, OK represents the return on equity, MAO represents the deposit/asset ratio, OAO represents the equity/asset ratio, SYR represents the capital adequacy ratio, K represents the participation banking dummy variable, $K1$ represents the collapse caused by the 2001 local crisis, $K2$ represents the 2005 crash, $K3$ represents the

Table 4.6: Correlation Coefficients

	AK	OK	SYR	OAO	MAO	K	K1	K2	K3
AK	1	0.9460**	-0.280**	0.1760*	-0.0891	-0.0754	-0.55**	-0.0938	0.0798
OK	0.9460**	1	-0.391**	0.0160	-0.0250	-0.0297	-0.49**	-0.1338	0.0699

Significance levels: (* p<0.05) (**p<0.01).

collapse caused by the 2008 global crisis, and ε_{it} represents the error term.

Equation (2-A) and equation (2-B) were estimated using panel data - random effects method.

Prior to econometric estimations, pairwise correlations between variables were analyzed. Table **4.6** shows the pairwise correlations between dependent variables (return on assets “AK” and return on equity “OK”) and the independent variables (deposit/asset ratio “MAO”, equity/asset ratio “OAO”, capital adequacy ratio “SYR”, participation bank dummy variable “K”, 2001 dummy variable “K1”, 2005 dummy variable “K2” and 2008 dummy variable “K3”).

According to Table **4.6**, there is a negative and significant correlation between AK and SYR. This indicates that the return on assets decreases as the capital adequacy ratio increases. However, a positive and significant correlation was found between AK and OAO. Furthermore, there is a negative and significant correlation between AK and K1. Similarly, according to this table, there is a negative and significant correlation between OK and SYR, and between OK and K1.

The correlations of all variables between each other are also shown in Table **4.7.**

Signs and significance of the variables used in the estimates are expected to be largely similar to the correlation coefficients. However, because the effects of other variables are controlled for in the regression, their signs and significances may differ.

Table **4.8** presents the findings of models estimating random effects using the panel data method. According to this table, the dummy variable (K) used for participation banks is negative and statistically significant (at the 1% level) in both models. This indicates that the participation banks’ return on assets and return on equity are lower than other banks. This cannot be explained by management failure in participation banks. In the above variance analyses, we observed that participation banks have lower volatility and recover more quickly after crises. Therefore, participation banks, due to uncertainty (gharar), do not incorporate returns from the financial economy into their business models, because they only finance the real economy. The lower profitability compared to other banks can be explained by differences in their business models. However, deposit to asset ratio (MAO) variable and equity to asset ratio (OAO) variable were found to be positive and significant in both models. This suggests that as the deposit-to-asset ratio and equity-to-asset ratio increase, banks’ return on assets

Table 4.7: Correlation Analysis

	Return on Assets	Return on Equity	Deposit to Asset Ratio	Equity to Asset Ratio	Capital Adequacy Ratio	Participation Bank Dummy	2001 Crisis	2005 Breakdown	2008 Crisis
Return on Assets	1								
Return on Equity	0.9460**	1							
Deposit to Asset Ratio	-0.08928	-0.0249	1						
Equity to Asset Ratio	0.1760*	0.0160	-0.237**	1					
Capital Adequacy Ratio	-0.280**	-0.391**	-0.116	0.655**	1				
Participation Bank Dummy	-0.0754	-0.0297	0.571**	-0.151*	-0.137*	1			
2001 Crisis	-0.555**	-0.493**	0.1257	0.0609	0.305**	0	1		
2005 Breakdown	-0.0938	-0.13386	0.1221	-0.0383	0.0653	0	-0.05	1	
2008 Crisis	0.07983	0.06992	0.0524	0.0087	-0.0346	0	-0.05	-0.05	1

Significance levels: (* p<0.05) (**p<0.01).

Table 4.8: Random Effects Estimations

Dependent Variable: Profitability	**Return on Assets**	**Return on Equity**
Independent Variables:		
MAO (Deposit to asset ratio)	0.0185*	0.247**
	(0.0101)	(0.124)
OAO (Equity to asset ratio)	0.289***	2,498*
	(0.0953)	(1.337)
SYR (Capital Adequacy Ratio)	-0.216**	-2.724**
	(0.0955)	(1.203)
K (Participation Bank Dummy)	-0.00481***	-0.0518**
	(0.00150)	(0.0206)
K1 (2001 dummy)	-0.0362***	-0.349***
	(0.00937)	(0.106)
K2 (2005 dummy)	-0.00620	-0,110
	(0.0110)	(0.154)
K3 (2008 dummy)	0.00201	0.0148
	(0.00145)	(0.0120)
Fixed term	-0.00585	-0.0130
	(0.00872)	(0.111)
Number of observations	210	210
Number of banks	10	10
P	0.0000	0.0000
χ2	811.1	282.1
R^2 (within)	0.481	0.403
R^2 (between)	0.717	0.802
R^2 (overall)	0.490	0.416

Corrected (robust) standard errors are given in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1

and return on equity increase. Because the majority of banks' assets consist of loans financed against deposits, the variable is expected to be positive and significant. On the other hand, the capital adequacy ratio (SYR) variable is found to be negative and statistically significant for both models. This reveals that as the capital adequacy ratio increases, their return on assets and return on equity decreases. A high SYR indicates that the bank is unable to provide effective loans, thus reducing profitability.

On the other hand, when we examine the results of the dummy variables indicating structural deterioration, only the dummy variable indicating the 2001 Turkish financial crisis is negative and significant. This indicates that the 2001 crisis statistically significantly reduced banks' return on assets and return on equity. The reason for the lack of a significant decline in profitability during the 2008 global crisis, and even a marginal increase, is that banks were restructured after the 2001 crisis and that mortgage loans and insurance were not used in the Turkish banking system during the 2008 global crisis.

When looking at the overall significance level of the estimated models, it is observed that all χ2 probability values are less than .05 ($p<0.05$). For the return on assets dependent variable model, an R^2 of .490 means that the estimated model explains 49% of the variation in the return on assets rates. For the return on equity dependent variable model, an R^2 of .416 means that the estimated model explains 41.6% of the variation in return on equity rates.

4.4.3. Summary of Findings and Evaluation

The findings of the study indicate that hypothesis 1 and hypothesis 2 are valid for banks in the Turkish Banking System. The study by Halamka (2015) confirmed that ethical banks have lower profitability and volatility than conventional banks, meaning they are more stable banks. This study also confirms this for participation banks. Participation banks support the real economy. Because they do not intercede for speculative transactions (derivative transactions, etc.), they do not target returns from the real economy by generating returns from the financial economy. Because the financial economy is riskier and carries higher-returns participation banks' refusal to intercede for speculative transactions has lowered their profitability and reduced volatility. This is a choice based on social goal. A year-by-year profitability analysis reveals that banks are more stable during crises, emerge stronger from crises, and recover more quickly.

Another finding regarding crises in the study is that it might be an exaggeration to say that the 2008 global crisis did not affect banks in Türkiye. It would be more accurate to say that it had no impact on the profitability ratios we measured. However, due to the global spread and long duration of the global crisis, it could be argued that it slowed bank growth by affecting macro factors such as inflation, exchange rates, and unemployment.

Additionally, this study conducted a profitability analysis and found that participation banks, in addition to factors such as deposits, loans, and equity capital, reduce overall profitability in banking due to their nature as participation banks. Therefore, it can be argued that profitability is not the primary goal of participation banks, but rather that other principles are also targeted. Furthermore, Öner's (2021) study found that participation banks have lower non-performing loan ratios than conventional banks. Therefore, it can be argued that the credit-debt relationship in conventional banks is more robust in participation banks, and that profit-loss sharing methods and real trade finance increase the asset quality of banks. This, in turn, makes banks more resilient to crises.

The results of this study are expected to lead to further studies on whether participation banking is affected by the crisis in terms of profitability, deposits, and loans.

4.5. Research Limitations

The analyses were limited to 10 banks between 2000 and 2020, and it should be noted that the results are representative of this dataset. However, since the selected period encompasses the crisis and post-crisis periods, 21 years of data are sufficient to explain these crises. While the number of banks appears small, considering the limited number of participation banks in Türkiye, which is only six, and the fact that three public participation banks were excluded from the analysis due to having data between 2 and 5 years, we can confidently say that the results are valid. Again, the data for conventional banks is sufficient to explain this, as seven conventional banks represent 80% of the banks' assets.

DISCUSSION

Considering that the concepts of social finance and ethical banks represent alternative solutions to the problems of capitalism in the West, and that these issues have been increasingly discussed internationally due to the impact of the 2008 global crisis, studies in this area in Türkiye are extremely limited. The reasons for the lack of a comparison between conventional banks and participation banks in the Turkish banking sector are as follows: participation banks are overlooked in the sector, perceived as not playing an active role, and the mission of participation banks is often dismissed by being labeled as "performing the same operations under different names," likely because they hold a much lower market share than others.

One of the reasons for this exclusion is the very low level of Islamic financial literacy, both in society and within the banking community. This study aims to address gaps in the literature by comparing the financial profiles of conventional banks and participation banks in Türkiye in terms of ethical principles and conducts variance analyses (financial ratios, profitability, return on assets, return on equity, and volatility). Consequently, participation banks have emerged as banks that support only the real sector, avoid financing projects that harm society, pursue social objectives through profit-loss-sharing financing models, and have a business model distinct from conventional banks. Furthermore, profitability analyses have examined their effectiveness during crisis periods and demonstrated that their post-crisis recovery processes are faster, meaning they are more stable.

Furthermore, when looking at similar studies in other countries with Islamic banking sectors (*e.g.*, Malaysia, GCC countries), there are numerous studies on ethical banking in Malaysia, where Islamic banking practices are prevalent. These studies have examined how green finance (*e.g.*, green sukuk) is reshaping the ethical discourse in Malaysian Islamic finance (Jaafar & Brightman, 2022), Malaysia's Value-Based Intermediation (VBI) strategy and its alignment with the UN Sustainable Development Goals (SDGs) (Ismail, Hameed, & Shahimi, 2023), and the Value-Based Principles for Islamic Banking Practices in Malaysia (Talib, Iskandar, & Muda, 2023). Consequently, many scholars identify Malaysia as a context where Islamic finance functions not only as a religiously compliant model but also as a values-based or ethical form of banking. Consequently, Islamic banks in Malaysia generally exhibit ethical performance indicators similar to, and in some cases even more prominent than, those found in traditional ethical banking models. Again, studies on ethical banking practices in GCC countries have also identified the commitment of senior bank executives to "ethical investments" (Haija, Lataifeh, Meqdade, & Yousef, 2024), the relationship between corporate social responsibility disclosure and Islamic bank stability (Khémiri & Alsulami, 2023), and the linkage between ESG (environmental, social, and governance) and ethical banking in Saudi Arabian Islamic banks (Ed-Dafali, Bashir, & Babiker, 2024).

When all these studies are considered together, it can be clearly stated that there is a clear relationship between Islamic banking practices and ethical banking practices, and therefore, Islamic finance should always be considered within the framework of ethical financial management. Furthermore, some studies raise concerns that potential customers from other religions may not conduct business with Islamic banking, limiting the scope of Islamic finance to Muslim clients only. While Islamic finance is indeed based on international or universal ethical principles, the mistake of tying it to a single religious school of thought restricts its access to non-Muslim clients (Saidi, 2009). In this context, many scholars have suggested that Islamic banking should be known as ‘ethical banking’ (Dar and Presley, 1999, Lewison, 1999), ‘profit-loss sharing banking’ (Zaher and Hassan, 2001), or even ‘interest-free banking’ (Siddiqi, 1997). These alternative names could make Islamic finance and banking more acceptable to the wider community. However, with this study, it is envisaged that the distrust created by economic systems towards banks can be eliminated, considering that participation banks target these ethical principles originating from the concepts of equality, justice and Islamic morality.

SUGGESTIONS

Banks can introduce themselves as a social and ethical financial institution or ethical bank to the extent that they provide loans to institutions investing in positive projects with environmental sensitivity and ethical values. This can slow economic and industrial growth by increasing the costs of firms. But the human race should focus not on material growth of society, but on preventing environmental depletion and the depletion of social values.

The trust of all stakeholders should be ensured that all practices and policies in ethical and responsible banking comply with social principles. With the idea of collectivism, it is necessary to create broader responsible communities that not only contribute to creating a society that values social welfare, but are also dedicated to ensuring a better life for all. This form of behavior is very important for a economic system that can contribute to ensuring equal opportunity and fair.

The growth of the ethical investment industry over the past three decades is another current indicator of the emphasis on the social and ethical behavior of companies. Companies believe they can achieve a competitive advantage from an ethical and social perspective. They anticipate that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brands, increase their corporate reputation in the eyes of customers and suppliers, and attract and retain a dedicated and skilled workforce. Indeed, the current literature claims that commitment to ethics and social responsibility will lead to better performance in terms of profitability, competitiveness and risk management.

In addition, considering the development process of Islamic banks, it is seen that they structure themselves closely to conventional banks for some reason. It can be said that one of the main reasons for this is that the senior managers of the bank have a conventional banking background and wish to move away from this system gradually. Another reason is that almost all banking regulations are the same globally, and it is almost impossible for Islamic banks to decouple significantly from the activities associated with conventional banks. Islamic banks need to redefine their priorities and the way they will measure their success. Marketing and public relations departments should play an active role in this regard and should compete not based on market share and profitability, but by prioritizing the parameters that reflect the socio-economic justice established in the society. In addition, some of the development areas of participation banks can be as follows; to carry out marketing activities in the international arena in order to eliminate the lack of information and recognition provided through social media and means of communication, to communicate with ethical banking institutions and to develop an ethical banking policy specific to its own operation.

Finally, scholars tend to polarize the terms conventional banking and ethical banking and draw conclusions by comparing them. However, it is important to remember that there is a wide variety of options for comparing targets and interpreting the analyses. The primary conclusion of this study is that the difference in the results of conventional banks and participation banks reflects the existence of two different business models. These targets have been seen as niche activities up to date, although some banks are already trying to assume the responsibility of helping society and the environment. Banks need to shift their focus away from high financial returns to sustainable returns in order to play a more constructive role. Banks should use their financial resources not for the benefit of the powerful ones, but as a tool to finance ethical projects serving the society and helping protect people's rights.

CONCLUSION

While the West is seeking solutions to the problems created by capitalism, it tries to overcome this impasse with concepts and theories such as "social finance", "sustainable finance", "ethical banking". The responsibility of social banks to the whole society is much more important than lending criteria of the bank and in particular, the profit. Companies have a competitive advantage that they believe they can carve out ethically and socially. The current literature claims that commitment to ethics and social responsibility will lead to better performance in terms of profitability, competitiveness and risk management.

In our study, comparing participation banks in Türkiye with ethical banking in the West, we found some similarities in the financing of savings and investments with social values in mind, the choice of sector in project financing, and the impact of this on the stability of the real economy. Based on these similarities, a quantitative study was conducted to highlight the stability of participation banks operating in accordance with Islamic banking principles. The analysis section of the study compared the financial ratios of conventional and participation banks. As a result, participation banks were found to adopt a financing model based on the real sector and to have a different business model than conventional banks. Furthermore, despite lower profitability than conventional banks, they were also found to have lower volatility and to be more stable. Based on the results regarding crises, participation banks were found to reach pre-crisis levels within 2-3 years, meaning they experienced a faster recovery process, while conventional banks took longer to recover.

In conclusion, we can confidently say that the goals of ethical banking are both social and financial, and that financial goals are not a priority but merely necessary to achieve social goals and sustainability. Similarly, in participation banks, financial goals are not a priority but a necessity to achieve social goals. Therefore, according to this analysis, participation banks in Türkiye are institutions that operate with ethical banking values.

One suggestion for Islamic banks is to redefine their success criteria. Marketing strategies should prioritize parameters that establish socioeconomic justice and customer trust, rather than market share and profitability. They should collaborate with international organizations on ethical banking and develop ethical banking procedures specific to their operations.

Finally, this study demonstrates that participation banks have a distinct business model and prioritize stability. To play a more socially responsible banking role in society, participation banks should define their focus not on profitability but on sustainable returns. Furthermore, they should use their financial resources not for the benefit of the powerful, but as a tool to finance ethical projects that serve society and help protect people's rights.

CONFLICTS OF INTEREST

The author declared no conflicts of interest.

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