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NEAR EAST UNIVERSITY
FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES
GRADUATE STUDIES

BANKING SECTOR IN TURKISH REPUBLIC OF NORTH CYPRUS
AND
COMMERCIAL BANKS

BY
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Cemre Ziyaoğlu
Eğilimler ve
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1.2 Concept of Banks

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CHAPTER I – INTRODUCTION

The aim of this thesis is to explore the effects of Commercial Banks in the light of the banking sector in T.R.N.C. and furthermore to see the impact of economic fluctuations on these banks. In the light of these Kıbrıs Altınbaş Bank Ltd. was chosen as an example and will be attempted analyse many aspects of the position in its level of the Commercial Banking Sector.

PART I – Money and Banking

1.1. Concept of Money

Human beings require many things to live and in order to satisfy those needs people had to give and takes from each other. First they started to exchange goods and services; we called this Barter (It is the direct exchange of goods and services for other goods and services). Of course, this Barter System or we can say Pure Barter Economy (Individual who wishes to obtain goods and services must research for second individual who is willing to provide those goods and services in exchange) brings some shortcomings with it. For example, the absence of a method of storing generalised purchasing power which allows individuals to store only specific goods, that may decrease in the value due to physical deterioration or a change in taste. Absence of a common unit of measure and value leads to the absence of a standardised way to state the price of commodities. Also absence of a designated unit used in writing contracts requiring future payments so much that in barter economies, it is impossible to write contracts for the future payments in a unit that is readily acceptable to both parties. As a fact, some of the states in the USA has still demand the former mentioned, but later on people have started to use commodity monies which were early commodity monies, such as wool corn, sheep. But then, more advanced societies started to use gold, silver and durable metals. Coradually trading, buying and selling started to be made by gold and silver. Inevitably the following problem arose such that the question of where to store these metals against the danger of theft. Then Goldsmiths came to their life. They were the people who received and stored the monetary gold and silver for wary owners and owners were given "Goldsmith Notes" which were signed by the goldsmith that could be exchanges for gold coins at the goldsmith's place of business. These were the first and vital steps in the evolution of the use of money, together with paper being used as a medium of exchange instead of metal coins.

Actually, the most important step in the evolution of banking was the development of bank notes, which is a piece of paper. After the lapse of years the quality of money become clearer in the sense that it was started as money should have portability, durability, divisibility, recognisability and standardisability . Money defined as the most liquid asset in which people choose to hold as part of their wealth. We can easily convert money into other asset forms and it has the same nominal value. Therefore, we can set up the four basic functions of the money as;

- Money as a Medium of Exchange: It aids you to sell your product also the use of money results in buying new goods and services. Briefly, it makes life easier by purchasing it rather than producing it.
- Money as a Store of Value: The ability of an item to hold value over time, because holding money as a store of value may cause the holder to incur a cost.
- Money as a Unit of Account: A unit of account means taking the monetary unit to measure the value of an asset.
- Money as a Standard of Deferred Payment: It involves the use of money as a medium of exchange and as a unit of account. A property of an asset that makes it desirable for use as a means of settling dept's maturing in the future.

Today, we can find different official definitions of money which ranges from narrow to broader measures include less liquid assets.

M1, Transactions Approach: It includes coins, currency, demand deposits and checkable accounts. They are the most liquid assets.

M2, Liquidity Approach: It includes M1 and saving accounts, small time deposits, money market deposit accounts which they are REPO's and deposits in other currencies. They are slightly less liquid assets.

M3: It includes M2 and large time deposits and term Repurchase Agreement at commercial bank.

L, A Measure of Liquidity: It has a broad definition for it. In consist of M3 plus saving bonds, treasury bills and commercial papers. All of these measures of money definitions showed in the *Table 1*

1.2. Concept of Banks

After the use of paper was claimed as a medium of exchange, goldsmiths started to recognise that the gold, which they have in reserve, does not make profit for them and daily withdrawals were nearly equal to the daily deposits. Following this, they made the next step in the development of banking by giving credits to the depositors. They loaned out 10 or 15% of the deposits to the creditors and took daily interest from them. So the Fractional Reserve Banking System was born. "This is a system in which depository institution hold reserves equal to less than 100% of total the deposits." M&B

According to today's economic conditions, people save their money because of their income levels and high interest rates. Banks analysis all of these alternatives and determine the interest rates because as we point out that banks are profit seeking business enterprises and their sources of funds are lending money and, purchasing and holding interest-bearing securities. By these sources they pay their bills, workers and the excess money remains as profit.

The types of banks operating in the sector are; the commercial banks, Central Bank, offshore banks, saving banks and so on.

The commercial banks are the depository institutions that are relatively unrestricted in its ability to make commercial banks and that is legally permitted to issue checking accounts. They are the most important financial institutions and their main sources of funds have been demand deposits.

TABLE 1

MEASURES OF MONEY

COINS AND CURRENCY	M1	M2	M3
DEMAND DEPOSITS			
OTHER CHECKABLE ACCOUNTS			
SAVING TIME DEPOSITS			
SMALL TIME DEPOSITS			
MONEY MARKET DEPOSIT ACCOUNT			
OTHER			
LARGE TIME DEPOSITS			
SAVING BONDS			
TREASURY BILLS			
COMMERTIAL PAPERS			

Source: Results From The Study

Central Banks act as a banker to the commercial banks and also act as a banker to the government hence taking responsibility to control of the money supply. The control of the money supply made by printing money (have the right of seigniorage) in order to control the monetary base; by reserve requirements that increase the minimum reserve ratios to decrease the liquid money in the market; by the discount rate which they use when commercial banks want to borrow money from Central Banks; and by the open market operations with buying/selling financial assets. So we can say that, Central Banks are the lender of the last resort, overtime ready to stop the financial crises by lending money and never goes to bankruptcy.

The offshore banking services shall perform all banking operations granted in the banking law entirely in an outward-oriented manner and allows citizens to borrow from offshore banks on conditions that their development projects have been approved by the Council of Ministers. Offshore banking units are obligated to restrict their services to customers who are nationals not resident, and to their offshore establishments. They may transfer money abroad, which they have secured, from abroad as well as their profits.

In the history of banking the very first company like bank, developed in Venedic. Then in 1401, "Casa Di San Giorgio" Genoa Bank was established. The Amsterdamche Bank that was established at Holland was the most important bank in the new century. But in Europe, the real banking sector developed at the beginning of 17th century.

When we look at Turkey's history of banking, the first bank was Banque De Constantinople (Bank İstanbul) which was established at the time of the Ottoman Empire. And it functioned till 1852. On 1863, Bank-ı Osmani-i Şahane was established which is the Osmanlı Bank today.

PART II – Rules of Establishment of Banks in T.R.N.C. and Central Bank

2.1. By The Government

2.1.a) Establishment

In order to establish a bank in TRNC or open a branch of foreign bank, first of all the owner of the bank should take the permission from Council of Minister. The applicant bank applies the Ministry of Finance and sends to the Central Bank then to the Councillor of Trade and Industry, in order to take the advice.

After getting the permission from Council of Minister, bank applies for the licence of banking and they should put the bill that they deposit of \$40,000. -(Forty Thousand American Dollars) in Central Bank. After applying for banking licence, at least two-month could take to get the licence. Banks should have \$500,000. -(Five Hundred Thousand American Dollars) in their capital at balance sheets, otherwise they should collect the amount till the end of April.

b) Divisions

The board of directors should be at least five people. The foreign bank which wants to open a branch in TRNC should have one qualified person who he is citizen.

The general manager of the bank and assistant of the general managers should be university graduated from the law, economy, business administration or money and banking departments. The general managers should have at least five years experience in banking sector and assistant of general managers should have at least three years experience. But if they are Lycee graduated, they should have at least ten years experience.

c) Deposits

Banks should have deposit in Central Bank about 10% of the profit per annum for probable loss. Every person who deposits in the bank can take this money whenever they want. Besides depositors can take a statement at least once a year.

d) Credit and Other Deposits

Banks could not give credits to a person more then 25% of the main capital. If a bank give credit to a person more then 10% of the main capital, it called big credits. The summation of the big credits could not be more the eight times of the main capital. The credits given to the workers from bank could not be more than the sum of their yearly salary.

e) Balance Sheets

Banks should calculate their balance sheets or income statements in order to the rules of Central Bank by yearly. And they should send it to the Central Bank with in four months in the recent year.

f) Controlling

Controlling made by the Central Bank. And Central Bank can take all the information of the data from the bank. If they find any irregularity at the documents, then can take it to the Ministry and can cancel the authorised signatures that depends on the documents. After that, these people whose cancelled the authorised signatures, could not work any bank with a right to sign a document without the permission of Central Bank. If Central Bank recognise that the interested bank's financial position going to be worse, they would give a time to that bank, in order to increase their capital and credits. Besides for this, to close some of the branches, stop to hire new workers, limiting the given credits or controlling the credits that not paid yet...

The board of directors of the bank should notify every step of the bank to the Central Bank. If there would be no profitability within the given time, then Ministry can stop the actions of the bank

The Ministry can give the permission to open a branch or representation to domestic bank. The Ministry can give the permission to the foreigner bank to open a representation and not accept the deposits or not start to give banking services.

2.2 Central Bank

The functions of the Central Bank in TRNC are; to arrange the money and loan plans according to the governmental economic and development plans, act as a banker to the government, protect the reserves of the banks deposits, to give the service of clearing-house in order to circulate the money, protect the gold and exchange reserves and calculate the profit and loss, to act as a clearing agent for international payments.

We will discuss it in Part III.

PART III – Central Bank in T.R.N.C.

Central Bank established for controlling the banking sector and, to arrange the development plans with the money and loan plans. The regulations of the Central Bank are to arrange the money and loan amounts in the money market, to act as an advisory to the government for finance and economic actions. Central Bank to be a government banks and also if any bank wants from Central Bank to represent them, they can act as that bank and be a finance agent for them.

Central Bank is at the capital city Lefkoşa. It has in its management, the board of directors, the manager, the assistant of the manager and the central branch administration authorities.

- The board of directors has one manager, two assistants of manager and four members. Besides for this one person can attempt to the meetings-who he is coming from the Ministry of finance- and share his advises in the conversations. Board of director could analyse the balance sheets and income statements. They can decide the limits of the loans.

- The manager changes in every five years by the Prime Minister if necessary. The manager should have at least ten years experience in banking sector and be university graduate. The manager of the Central Bank can manage the administrative actions, could be a representative of the bank in or out of the country. Manager should be aware and control on the validity of the decisions of the board of directors, should prepare the budget of the bank, the balance sheet and the income statement. Manager can also appoint the assistant of the manager to his place if he would not be in his place. And finally he would like to be a bridge between bank and the government.

- Every assistant of the manager appointed by the Prime Minister with the acceptance of the council of ministers within five years.

- Members of the board of directors appointed by the Council of Ministers for five years. And every member should be university graduates and have experience. The salaries of all members of the board of directors decided by the council of ministers.

According to the development plans and yearly programs, Central Bank prints the money in order to satisfy the need of liquidity with helping the economic purposes. Also they arrange the loans that going to be give.

"The establishment of an Interest Differential Fund within the body of the Central Bank of the TRNC for the purpose of facilitating implementation of preferential interest rate application as regards credits falling into subject matter of pertaining to sectors earmarked for encouragement. Interest Differential Fund regulations issued the sources of the fund are:

- a. Provision for this purpose in the State Budget

- b. Specific amounts set aside in the bank Budget I live of interest on Treasury funds lodged with the Bank.

- c. Out of the maximum rate of the interest charge on all kinds of cash credits given by banks, cooperative bank and other establishments set up under the laws of the Republic, interest differential at the rate of three points and in the case of foreign currency credits at the rate of $\frac{1}{2}$ point collected and lodged into the Interest Differential Fund opened with the Bank.

d. Penal interest at the rate of 8% per month and in the case of foreign currency credits at the rate of 1% per month where interest refunds are not lodged on time or in full, and

e. Contributions by the State of the Republic of Turkey.”^{BUL}

Central Bank can decide and implement the general disponibility and every bank has to have a block account to equalise the amount of disponibility. Besides banks should notify the charges of the capital and loans to Central Bank by fill the form of monthly situations.

Central Bank can decide and implement the interest rates of the deposits or loans and the times of them. Central Bank is the banker of the government. That's why, they can make the transfers of money without taking fee.

Every bank in TRNC should give their balance sheets, income statements and reports to the controllers of the Central Bank every end of the year. Central Bank can take every information about loans, credits, deposits from the bank and can control the actions and take preventive decisions. Banks should prepare all the requirements Central Bank wanted.

The Risk Centre was established for the banks, which states in TRNC and depositors in order to collect the risk positions. Every bank should give the information about their risk positions and all the sources of the risk centre are concealed. But only Central Bank can give the information about the depositors or borrowers positions.

If any bank committed a voucher five years before the ending time, then Central Bank can accept the discounting operations or can give the advances, but it should have two authorised signatures on it.

Central Bank would give the short-run loans to the companies in order to buying raw materials, goods and needs of tourism. But they could not give the loans for investments. Also they can control the borrowers whenever they want.

Central Bank can import and export the gold and coins; they can give advances and take equivalently gold or exchange. But they could not give loan without corresponding, whatever the position it is. They could not to be stand as surety.

Controlling the Central Bank made by the Exchequer and Audit Department of the government and after preparing the report it sends to the Central Bank, Ministry of Finance and National Assembly.

Note: Please See Table 2 and Table 3

CENTRAL BANK OF TURKISH REPUBLIC OF NORTHERN CYPRUS
BALANCE SHEET AS AT 31 DECEMBER 1996

(Million TL)

Liabilities	1996		1995		Assets	1996		1995	
	December		December			December		December	
Deposits	8.362.375,00		3.755.990,6		Current Assets	4.995.995,1		2.475.432,9	
Additional Cash Reserve					Treasury Current Account	991.972,7		1.693,3	
Against Deposits	9.951.739,40		4.376.072,1		Loans	144.694,49		6.438.792,7	
Special Funds	1.038.120,30		437.291,5		Buildings and Equipment	2.878,3		1.591,1	
Other Liabilities	10.148.591,50		4.188.046,5		Other Assets	9.695.484,8		4.014.607,4	
Capital & Reserves	654.953,70		174.716,7						
	30.155.779,90		12.932.117,40			30.155.779,90		12.932.117,40	

Source: May 1997 Bulletin, Central Bank of TRNC

**CENTRAL BANK OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996**

Expenditures	1996		1995		Income	1996		1995	
	1/1/96-31/12/96	1/1/96-31/12/96	1/1/95-31/12/95	1/1/95-31/12/95		1/1/96-31/12/96	1/1/96-31/12/96	1/1/95-31/12/95	1/1/95-31/12/95
Personal Emoluments	61.646,4		37.464,2		Interest Received	1.187.854,7		514.204,9	
Administrative Expenses	254.772,8		102.214,6		Commissions Received	42.836,7		30.012,6	
Legal Advice and Court Proceedings	852,0		208,5		Profit From Foreign				
Interest Paid	1.038.433,6		670.862,7		Exchange Dealings	17.754,3		8.273,5	
Commissions Paid	2.095,6		1.946,3		Profit From Securities				
Depreciation	393,2		199,4		other Income	691.300,2		332.862,8	
Interest Differential Fund	-		-						
Insurance of Turkish Lira and									
Foreign Currency in hand	50.000,0		40.000,0						
Provision for doubtful Debts	-		5.000,0						
Pension Fund	30.000,0		5.000,0						
Other Expenses	21.315,3		12.045,2						
Profit	480.237,0		10.412,9						
	1.939.745,9		885.353,8			1.939.745,9		885.353,8	

Source: May 1997 Bulletin, Central Bank of TRNC

Offshore Banking : Establishments as well as real persons and corporate bodies specified herebelow may apply to the Central Bank for the purpose of carrying on offshore banking operations in TRNC, in accordance with the provisions of this law:

- a- Foreign banks
- b- Branches / Subsidiaries of foreign banks
- c- Foreign real persons and corporate bodies.

Charges payable on applications shall be fixed by the decision of the Council of Ministers. But this amount shall not exceed \$1,000. -(One Thousand American Dollars). Minimum Cash payed up capital required of offshore banks is \$500,000. -(Five Hundred Thousand American Dollars). Upon payment of the cash capital into a blocked account at the Central Bank the provisional licence is rendered absolute and the Ministry responsible for financial matters issues the business licence to the applicant.

The following banks are carry on business after being licensed under the offshore banking service law and duly registered:

East Mediterranean Trust Bank Offshore Ltd.
The European Business Bank Ltd.
The European Commerce Bank Ltd.
The Euro Textile Bank Ltd.
Cyprus United Trade and Investment Bank Ltd.
Atlasbank Offshore Ltd.
Imarbank Offshore Ltd.
Özbank Offshore Ltd.
Alyans Investmant Bank Offshore Ltd.
Oki Bank Ltd.
Mediterranean Union Bank Ltd.,
World Vakıf Offshore Banking Ltd.
Optima Bank Ltd.
Northern Island bank Ltd.
Cyprus İslamic Bank Ltd.
Facto Bank Ltd.
First Merchant Bank Ltd.
Sugar Bank Offshore Ltd.
Toprak Bank Offshore Ltd.
Cleveland Offshore Bank Ltd.
Golden Union Offshore Bank Ltd.
Trade Deposit Offshore Bank Ltd.
Sovereign Gold Depositors Offshore Bank Ltd
Cyprus Trade Development Offshore Bank Ltd
Metropolitan Investment Offshore Bank Ltd
Maritima Offshore Bank Ltd
Yaşarbank Foreign Offshore Ltd
IGSbank Offshore Ltd
Technical Export İmport Offshore Bank Ltd
Bank Turquoise Offshore Ltd.
Adabank Offshore Ltd.
Oversees Bank Offshore Ltd.
Unibank Offshore Ltd.

Authorised Institutions : It means Institutions authorised to buy, keep and sell foreign currency in accordance with the money and foreign exchange law, such institutions are required to obtain a work licence from the Ministry responsible for financial matters. The names of the business of authorised institution carrying on business at present are given as:

Birinci Döviz Alım Satım Şti.Ltd.

Fıncioğulları Co.Ltd.

Elmaslar Yatırım Şti.Ltd.

Ertoğrul Akbel and Sons Ltd.

Sun Döviz Bürosu Ltd.

Nafa Döviz Alım satım Şti. Ltd.

Forex Management Services Ltd.

Er-Tem Yatırım Şti. Ltd.

Batu Exchange Co. Ltd.

Gesfi Şti. Ltd.

Aktif Döviz Ltd.

Rant Döviz Bürosu Ltd.

Aşardağ Exchange Ltd.

Ömer Alganer Döviz Ltd.

Denizaltı Döviz Ltd.

Hakim Döviz Alım Satım Şti. Ltd.

Chequepoint Ltd.

M.Osman ve Oğlu Yatırım Şti. Ltd.

Uluçay Exchange Ltd.

Gala Exchange Bureau Ltd.

Eşref Mevlütoğlu Ltd.

Yedez Döviz Bürosu Ltd.

Yazgın Döviz Ltd.

Akfinansman Exchange Ltd.

Tunal Döviz Bürosu Ltd.

Geyik Ltd.

Akın Gold Döviz ltd.

Çakıcı Döviz Ltd.

Nema Döviz Ltd.

Orallar Ltd.

Altınör Döviz Bürosu Ltd.

3.2. The Work Procedure of INTERBANK

Central Bank of the TRNC was established money market, between the bank and called Interbank. The purpose of Interbank is, to encourage the banking reserve movements and to use of the sources of banking sector in profitable way.

So if any bank have excess money in short term, it can be finance the other bank which needs money in short-run. And the Central Bank would be the mediator between the banks; while satisfying the needs either sell or buy the money. Also they would take 0.5% commisions from the banks on the amount of money.

The working hours start at morning 09:00 till 11:30 and noon 14:00 till 15:00. The Minimum amount carrying out in the transfers would be 100,000,000.-(Hundred Million Turkish Lira).

PART IV – Commercial Banking

Commercial Banking focus on Commercial Banks' assets as well as their liabilities. The Commercial Banks depository institutions that is relatively unrestricted in its ability to make commercial loans and that is legally permitted to issue checking accounts. They hold a variety of assets, including cash assets, security loans, sales of RPs , a purchases of Federal Funds. There has been a general trend toward less holding of cash and securities by Commercial Bank. They issue a vaiety of liabilities, including transactions , saving and time deposits, purchasing of RPs.

CHAPTER II – Functions, Financial Structure and Money Management Of Commercial Bank.

PART I – Functions Of Commercial Bank

As we mentioned before, Commercial Banks are depository institutions, so we can say that they are profit-seeking business enterprises. Their functions are: lending money to a real person or a company, and purchasing and holding interest bearing securities.

PART II – Financial Structure of a Commercial Banks

2.1. Assets and Liabilities

Assets : There are 4 different categories of bank assets which they are reserves and cash items, loans, securities and other assets.

a) Reserves and Cash Items: Reserve deposits use for two reasons; To holding reserve department is another way, besides vault cash that commercial banks may meet legal reserve requirements. Also Central Bank use reserve department account to exchange funds in their lending and borrowing activities.

Cash Items (Vault Cash), is currency that Commercial Banks hold on location to meet the needs of their depositors for cash withdrawals from their accounts. Vault Cash is not counted as part of the M1 measures of money, because it is not in circulation in payment of goods and services.

Correspondent balances, are deposits that are held with other private banks. Specially we can see this in big countries. For example, banks in smaller towns find convenient to hold accounts with a regional Central Bank in city.

Cash Items, in the process of collection are checks or other types of cash drafts that was deposited with a bank for credit, but they are subject to cancellation of credit if there are not paid after the fact.

b) Securities: It is printed document providing proof of ownership/creditorship. Security holdings of Commercial Banks held under government securities, which are treasury bills and bonds.

c) Loans: They are the main sources of funds in Commercial Banks. There are following categories as; Commercial loans are loans for the business firms in order to hold them to finance their investments. Consumer loans given to individuals for use in purchasing consumer goods use in educational expenses and so on....

With loans Commercial Banks licence their operating expenses and pay the interest to the depositors.

d) Other Assets: They are the stocks, the equipment, land and account receivables.

Liabilities : Some of the liabilities are under customer control because of their account actions. These types of liabilities are demand deposits (Checking deposits), saving deposits (Passbook Saving Account), Statement saving deposits (which they have no maturity date) and short term time deposits which they have fixed maturity and when the time comes bank should pay the interest to the customer.

Other types of the liabilities are long-term time deposits. This deposits which over then three months.

RP's : When a bank sells securitis with the agreement to repurchase then at a later date and to pay interest on the transactions, it effectively borrows funds for the lend of the RP Agreement for the buyer of the securities.

Equity Capital : It is owners' share in the bank. It is the value of all bank assets less the value of all liabilities or the net worth of the banklinf firm.

2.2.Revenues and Expenses

The sources of revenues are coming from the interests, bank receivess from its commercial nad industrial lending activities. So we can summarize as revenues causes owner's equity to increase from operation of the bank. Besides for that, commissions, exchange revenues and other revenues records as revenue. The interest revenues are the main sources of revenues.

The expenses causes a decrease in owner's equity or decrease in assets and rise in liabilities. The expences are as follows:

Personnel Expenses	Commission Expenses	Lawsuit Expenses
Administrative Expenses	Interest Expenses	
Retired Fund Expenses	Other Expenses	

The interest expense, which banks should pay to the depositors would be the biggest amount of the expenses. After that, the administrative expenses commonly come.

2.3. Balance Sheet and The Income Statement

The purpose of a balance sheet is to show the financial position of a given bank entity at a specific date. Every bank prepares a balance sheet at the end of the year. It consists of a listing of the assets, the liabilities and the owner's equity of a bank that I explained in section 2.1. Please see *Table 4*

On the other hand, an income statement is a one-page financial statement, which summarises the profitability of the bank entity over a specified period of time. Net incomes are revenues and expenses (Section 2.2.). When we measure the net income earned by a bank we are measuring its economic performance- its success or failure-. Please see *Table 5*

TABLE 4

BALANCE SHEET OF X COMMERCIAL BANK LTD.

DEC 31, 199X

(\$ Billion)

ASSETS	LIABILITIES & Owner's Equity
Vault Cash	Transactions deposits
Reserve Deposits	Savings Deposits
Correspondent balances	Time Deposits
Cash Items in Process of Collection	Total Deposits
Other cash assets	
Total Cash Assets	Borrowings
Government Securities	
Other Securities	Other Liabilities
Total Securities	
Commercial Loans	Equity Capital*
Real estate Loans	
Consumer Loans	
Other Loans	
Total Loans	
Other Assets	
Total Assets	Total Liabilities and Net Worth

Source: Modern Money and Banking, 3rd Edition

TABLE 5

INCOME STATEMENT OF X BANK

(Million TL)

Revenues

Commissions Revenues	24.800
Exchange Dealing	8.500
Profit From Securities	564
Interest Revenues	554.962
Total Revenues	588.826

Expenses

Interest Expenses	450.000
Salaries Expenses	32.569
Administrative Expenses	4.564
Advertising Expenses	4.675
Tax Expenses	3.879
Total Expenses	495.687

Net Profit: 93.139

Source: Modern Money and Banking, 3rd Edition

PART III - Money Administration

3.1. Repo Implementation

It allows a bank to sell Treasury or federal agency securities to its customers and then to repurchase them at a higher price that includes accumulated interest. An overnight REPO permits the bank to sell securities to its customers coupled with an agreement to repurchase them at a higher price the following day. So repurchase agreements are contracts to sell securities back at a given date. Banks generally are the buyers that agree to resell securities in these transactions, because the contracts call for the seller of the securities to repurchase them at the original face value plus interest. By buying a Repurchase Agreement, a Commercial Bank makes an interest-earning loan. But REPOs are not reported as loans because they have very short maturity which range from days to week and week to one month.

If there is lack of money in the market, then the REPOs started to make by overnight because of high interest rates. The reverse of this, if there are excess money in the market, then the REPO interest rates decrease to the half of the interest of one month time deposits. That's why the interest rates of REPOs, accepted as the measurement of money in excess or lack and, time and amount in the market.

REPOs made by a specific time period, but if one party has a right to finish the agreement, then we can call this Open Repurchase Agreement. Besides, if Repurchase Agreements continue till one party going to finish that agreement at a time, then this is called as continuous contract.

The times of the Repurchase Agreements are at 10:00 till 12:30 and 13:00 till 17:00 p.m. And the formula of the Repurchase Agreement calculated as:

$$\text{REPO} = \text{Amount of selling} \left(1 + \frac{\text{Maturity date} * \text{Interest rate}}{365} \right)$$

For example, if depositor wants to make an agreement by the amount of hundred million Turkish Liras with the 30 days at 60% rate of interest. According to the Repurchase Agreement the total amount he gets;

$$\text{REPO} = 100,000,000 \left(1 + \frac{30 * 0.60}{365} \right) = 104,931,500. \text{ -TL}$$

3.2. Exchange Rates Implementations

The foreign exchange market is the international market in which one national currency can be exchanged for another. The price at which the two-currency exchange is called the exchange rate.

National authorities allow exchange rates to fluctuate in accordance with market conditions but nevertheless intervene from time to time in order to exert influence on the rate at which exchange rate adjustments take place, but not in order to neutralise them.

As we know, TRNC uses the Turkish Lira which it is the currency of Republic of Turkey. So every fluctuation in the economy of Turkey effects the economy of TRNC and accordingly the exchange rates and interest rates. If Turkish Lira devaluated or revalue in Turkey, it happens in the same time and the same direction in TRNC with the decision of Central Bank.

In Commercial Banks in TRNC exchange rates commonly determined according to the Republic of Turkey's exchange rates and free market. The exchange rates floating between ± 100 and ± 500 TL according to the position of Commercial Bank in the money market. Also the Clearing System effects the exchange rate in TRNC. If banks would need money in the Central Bank because of the Clearing, then Commercial Banks would decrease the exchange rates in order to keep the TL in their hand. Otherwise, reverse of this if they would have excess money because of Clearing, then they would increase the exchange rates to sell the TL.

PART IV – Economic Performance of TRNC

- **Growth of Output and Resource Use**

GNP, which at constant 1997 prices amounted to 7,268.3 Million TL in 1994 rose to 7,457.8 Million TL in 1995 and accordingly to the estimates will fall to 7,373.5 Million TL in 1996. So at constant price there is a fall of 1.1% in 1996. See Table 6. Comparative available resources and gross expenditure of the economy for the years 1994 and 1995 have shown at Table 7.

- **Employment**

Between the years 1993-1996 agriculture occupies the first place with an approximate share of 23%, Public Services the second place with as approximate share of 22%, Construction at the third place with 13%, the rest are Industry with 11% and Trade with 10% of approximate share. Please See Table 8

- **Monetary Developments**

Economic Co-operation protocol signed between TRNC and Republic of Turkey and implemented at large till today. According to that,

- The Legislation regarding banking, Money and Foreign Exchange and Foreign Capital will be re-regulated,

- The government of Turkey will provide the necessary financial support and technical assistance to enable to TRNC to secure economic stability and to effect structural changes.

- Mutual obligations will be tied to a timetable.

Also necessary studies will be carried out including amendment of legislation and reciprocal measures taken with a view to overcoming the liquidity problem arising between the Republic of Turkey and TRNC within the framework of the monetary union.

DISTRIBUTION OF GROSS NATIONAL PRODUCT AND SECTORAL GROWTH RATES

(At Constant 1997 Factor Cost Million TL)

SECTOR	1994	1995	1996*	1994-1995	1995-1996*	1994	1995	1996*
1. Agriculture								
a) Farming	781,1	799,8	859,1	2,4	7,4	10,9	10,9	11,8
b) Forestry	728,2	672,7	677,8	-7,6	0,8	10,2	9,2	9,3
c) Fishing	9,1	81,5	135,5	785,9	66,3	0,1	1,1	1,9
	43,7	45,6	45,8	4,3	0,4	0,6	0,6	0,6
2. Industry	952,8	1001,6	993,5	5,1	-0,8	13,3	13,6	13,6
a) Mining & Quarrying	26,2	24,5	24,3	-6,5	-0,8	0,3	0,3	0,3
b) Manufacturing	797,9	837,2	827,9	4,9	-1,1	11,2	11,4	11,4
c) Electricity & Water	128,7	139,9	141,3	8,7	1	1,8	1,9	1,9
3. Construction	646,7	507,5	502,8	-21,5	-0,9	9,1	6,9	6,9
4. Trade	1258,5	1392,6	1261,5	10,7	-9,4	17,6	18,9	17,3
a) Wholesale & Retail	1023,5	1149	1025,6	12,3	-10,7	14,3	15,6	14,1
b) Hotels & Restaurants	235	243,6	235,9	3,7	-3,2	3,3	3,3	3,2
5. Transport & Communications	762	812,4	824,3	6,6	1,5	10,7	11	11,3
6. Financial Institutions	361,6	409,5	420,1	13,2	2,6	5,1	5,6	5,8
7. Ownership of Dwelling	402,8	410,6	418,4	1,9	1,9	5,6	5,6	5,8
8. Professions & Other Services	274,8	280,6	277	2,1	-1,3	3,9	3,8	3,8
9. Public Services	1346,2	1316,8	1319,2	-2,2	0,2	18,8	17,9	18,1
10. Customs Duty	357,5	428,6	406,1	19,9	-5,2	5	5,8	5,6
GDP(at market price)	7144	7360	7282	3	-1,1	100	100	100
Net Factor Income from abroad	124,3	97,8	91,5	-21,3	-6,4	1,7	1,3	1,3
GNP(at market price)	7268,3	7457,8	7373,5	2,6	-1,1	101,7	101,3	101,3

*Provisional Estimate

Source: State Planning Organization

TABLE 7

AVAILABLE RESOURCES AND GROSS EXPENDITURE OF THE ECONOMY

	1994		1995		Percentage of Change		Percentage to GNP	
	Current	Constant 1997	Current	Constant 1997	Current	Constant 1997	Current	Constant 1997
(Million TL)								
I. Gross Available Resources								
1. GNP (at market price)	16,707,212,6	7,323,4	35,751,592,2	7,579,2	114,0	3,5	100,7	101,6
2. Foreign Resources	16,581,566,8	7,268,3	35,178,971,7	7,457,8	112,2	2,6	100,0	100,0
II. Gross Investments	125,645,8	55,1	572,620,5	121,4	355,7	120,3	0,7	1,6
1. Fixed Capital Formation	2,388,525,3	1,048,0	4,826,688,7	1,023,2	102,1	-2,3	14,4	13,7
a) Public	2,215,173,7	971,0	4,247,018,7	900,3	91,7	-7,3	13,3	1,1
b) Private	780,605,1	342,2	1,152,616,9	244,3	47,7	-28,6	4,7	3,3
2. Change in Stocks	1,434,568,6	628,8	3,094,401,8	656,0	115,7	4,3	8,6	8,8
a) Public	173,351,6	76,0	579,670,0	122,9	234,4	61,7	1,0	1,6
b) Private	32,928,5	14,4	122,801,5	26,0	272,9	80,6	0,2	0,3
III. Gross Expenditure	140,423,1	61,4	456,868,5	96,9	225,4	57,3	0,8	1,3
a) Public	14,318,687,3	6,276,4	30,924,903,5	6,556,0	116,0	4,5	86,3	87,9
b) Private	3,944,913,8	1,729,2	8,078,733,9	1,712,7	104,8	-1,0	23,8	23,0
IV. Gross Domestic Savings	10,373,773,5	4,547,2	22,846,169,6	4,843,3	120,2	6,5	62,5	64,9
	2,262,879,5	991,9	4,254,068,2	901,8	88,0	-9,1	13,7	12,1

Source: Bulletin of Central Bank, 1997

SECTORAL EMPLOYMENT AND POPULATION

	1993		1994		1995		1996	
	Number	Percentages	Number	Percentages	Number	Percentages	Number	Percentages
1. Agriculture	18.100,0	24,0	17.738,0	23,4	17.383,0	22,8	17.035,0	22,3
2. Industry	8.198,0	10,8	8.207,0	10,8	8.348,0	10,9	8.352,0	11,0
a) Mining & Quarrying	976,0	1,3	976,0	1,3	976,0	1,3	976,0	1,3
b) Manufacturing	5.991,0	7,9	6.000,0	7,9	6.107,0	8,0	6.107,0	8,0
c) Electricity & Water	1.231,0	1,6	1.231,0	1,6	1.265,0	1,6	1.269,0	1,7
3. Construction	9.584,0	12,7	9.584,0	12,6	9.584,0	12,5	9.584,0	12,6
4. Trade-Tourism	7.889,0	10,5	8.004,0	10,6	8.367,0	10,9	8.367,0	11,0
a) Wholesale & Retail Trade	5.182,0	6,9	5.182,0	6,9	5.470,0	7,1	5.470,0	7,2
b) Hotel & Restaurants	2.707,0	3,6	2.822,0	3,7	2.897,0	3,8	2.897,0	3,8
5. Transport & Communication	6.144,0	8,2	6.228,0	8,2	6.510,0	8,5	6.577,0	8,6
6. Financial Institutions	2.162,0	2,9	2.194,0	2,9	2.397,0	3,1	2.441,0	3,2
7. Professions and other Services	6.936,0	9,2	7.266,0	9,6	7.276,0	9,6	7.276,0	9,5
8. Public Services (including State Economic Enterprises and Municipalities)	16.365,0	21,7	16.589,0	21,9	16.589,0	21,7	16.613,0	21,8
Total Economically Active Population	75.378,0	100,0	75.810,0	100,0	76.454,0	100,0	76.245,0	100,0
Unemployed	569,0		704,0		752,0		1.019,0	
Total Population	171.120,0		179.208,0		181.363,0		183.290,0	

Source: State Planning Organization

- **Fiscal Developments**

Cumulative Budget Deficit at the end of 1995 amounted to 6,094.6 billion TL while it was 3,897 billion TL in 1995 and it has been met by borrowing. *Please See Table 9.*

- **Trade**

During 1981-1996 of the imports 40.2%-53.4% came from Turkey and 46.6%-59.8% from other countries. Of the exports 12%-60.1% went to Turkey and 39.9%-88% to the other countries. Turkey occupies the first place in our imports while in our exports the biggest share goes to U.K. till the end of the year 1995 and in 1996 to Turkey. *Please See Table 10.*

- **Balance of Payments**

It is a record of all the transactions between the households, firms, and government of one country and the rest of the world. Any transaction that leads to a payment by a country's residents (or Government) is a deficit item. It includes imports of merchandise, use of foreign-owned transportation, interest and dividends paid to foreigners, purchase of foreign currency and foreign assets, finally deposits made in foreign depository institutions. Deficit-item transactions lead to an increase in demand for foreign currencies and an increase in supply of the domestic currency on the foreign exchange market.

Trade deficit is shown around 260 Million USD in 1994, 1995 and 1996 in TRNC. Generally speaking our exports have met 26.1% of our imports. *Please See Table 11.*

TABLE 9

ANNUAL BUDGET DEFICITS

(Million TL)

	Budget Deficit	Percentage to GNP
1975 Budget Deficit	156,20	8,6
1976 Budget Deficit	163,10	5,8
1977 Budget Deficit	364,80	9,6
1978 Budget Deficit	364,00	6,9
1979 Budget Deficit	701,40	8,2
1980 Budget Deficit	1.571,60	8,9
1981 Budget Deficit	2.024,80	8,3
1982 Budget Deficit	2.856,80	8,3
1983 Budget Deficit	3.722,70	7,9
1984 Budget Deficit	6.789,80	9,2
1985 Budget Deficit	12.504,80	9,9
1986 Budget Deficit	22.585,40	11,6
1987 Budget Deficit	21.117,90	0,3
1988 Budget Deficit	19.386,50	4
1989 Budget Deficit	24.201,30	2,7
1990 Budget Deficit	83.535,00	5,4
1991 Budget Deficit	255.513,60	11,2
1992 Budget Deficit	341.678,90	8,5
1993 Budget Deficit	518.431,30	7,4
1994 Budget Deficit	879.891,60	5,4
1995 Budget Deficit	3.897.049,60	11,1
1995 Cumulative Budget Deficit	6.094.611,10	-
1996 Budget Deficit for 11 Months	1.856.575,00	-

Source: State Planning Organization

FOREIGN TRADE BY MAIN COUNTRIES
1990- 1996

Countries	1990				1991				1992				1993			
	Imports Value	%	Exports Value	%	Imports Value	%	Exports Value	%	Imports Value	%	Exports Value	%	Imports Value	%	Exports Value	%
1. Turkey	153,5	40,2	7,9	12,1	143,0	47,5	7,3	13,9	178,7	48,1	9,1	16,7	150,9	41,5	12,5	22,9
2. Other Countries	288,0	59,8	57,6	87,9	158,1	52,5	45,2	86,1	192,7	51,9	45,5	83,3	213,0	58,5	42,0	77,1
a.U.K.	67,1	17,6	44,0	67,2	45,7	15,2	35,4	67,4	45,5	12,2	36,3	66,5	65,4	18,0	26,7	49,0
b.Other EEC Countries	64,0	16,8	7,0	10,7	47,2	15,7	6,6	12,6	45,9	12,4	5,5	10,1	56,3	15,4	9,7	17,8
3.Middle East Islamic Countries	6,4	1,7	1,6	2,4	4,7	1,6	0,7	1,3	2,3	0,6	1,5	2,7	3,2	0,9	2,2	4
4.Far East Countries	52,3	13,7	-	-	32,4	10,7	-	-	37,9	10,2	0,1	0,2	47,3	13	0,1	0,2
5.Other	38,2	10	5	7,6	28,1	9,3	2,5	4,8	61,1	16,5	2,1	3,8	40,8	11,2	3,3	6,1
Total	381,5	100	65,5	100	301,1	100	52,5	100	371,4	100	54,6	100	363,9	100	54,5	100

Countries	1994				1995				1996			
	Imports Value	%	Exports Value	%	Imports Value	%	Exports Value	%	Imports Value	%	Exports Value	%
1. Turkey	129,3	45,1	10,4	19,5	194,8	53,2	20,2	30,1	176,3	53,4	42,7	60,1
2. Other Countries	157,3	54,9	43,0	80,5	171,2	46,8	46,8	69,9	153,7	46,6	28,3	39,9
a.U.K.	73,4	25,6	24,7	46,2	49,4	13,5	23,8	35,5	45,4	13,8	10,6	14,9
b.Other EEC Countries	31,0	10,8	9,5	17,8	49,9	13,6	12,7	19,0	45,1	13,7	9,1	12,9
3.Middle East Islamic Countries	2,8	1	6,5	12,2	7,6	2,1	1,9	2,8	7,7	2,3	1,5	2,1
4.Far East Countries	25	8,7	-	-	33,5	9,2	-	-	29,9	9,1	-	-
5.Other	25,1	8,8	2,3	4,3	30,8	8,4	8,4	12,6	25,6	7,7	7,1	10
Total	286,6	100	53,4	100	266	100	67	100	330	100	71	100

Source: State Planning Organization

TABLE 11

BALANCE OF PAYMENTS

	1994	1995	1996*	Percentage of Change	
				1994-1995	1995-1996
I. Current Account					
A: Foreign Trade					
1. Exports	53,4	67,3	71	26	5,5
2. Imports	-286,6	-366,1	-330	27,7	-90,9
Trade Balance	-233,2	-298,8	-259	28,1	-13,3
B: Invisibles					
1. Tourism (Net)	172,9	218,9	180,3	26,6	-17,6
2. Other Invisibles (Net)	56,1	67,6	68,2	20,5	0,9
Invisible Balance	229	286,5	248,5	25,1	-13,3
Current Account Balance	-4,2	-12,3	-10,5	192,9	-14,6
II. Capital Movement's					
1. Turkish Aid & Credit	22,1	28,4	36,1	28,5	27,1
2. Other Foreign Aid	1,8	2,4	2,5	33,3	4,2
3. Financing of Imports by waiver as against official allocation	136,1	151,6	135,4	11,4	-10,7
4. Other Short term Capital Movements	-107,9	-105,9	-94,5	-1,9	-10,8
Net Capital Movements	52,1	76,5	79,5	46,8	3,9
Overall Balance	47,9	64,2	69	34	7,5
III. Reserves					
(-Increase + Reduction)	-47,1	-66,1	-69,9	40,3	5,7
IV. Net Errors and Omissions	-0,8	1,9	0,9	137,5	-52,6
Net Factor Income From Abroad	9,5	9,9	9,5	4,2	-4

Source: State Planing Organization.

*Provisional Estimate

4.1. Effects of Economic Fluctuations on Commercial Banks

As we discussed before TRNC uses the Turkish Lira which it is the currency of Turkey. And all the fluctuations on exchange rate effects in the same direction to the economy of TRNC. Besides, we have to mention that, there are economic embargoes imposed on the TRNC by all the foreign countries and institutions except Turkey.

As TRNC was still not recognised yet, any foreign person/company can open an account in Commercial Banks. Also any person/company can sent the money abroad freely.

In the planning of the Third Five-Year Development Plans, interest rates were risen and then leave free in May 1991 this is because of mobilised economic resources directed to the banking system and defended from the inflation. By this, deposits effected positively and increased rapidly. In the total deposits, the share of the time deposits was gone to rise.

In between the years of 1987-1991 period, the banking investments increase yearly approximately 84.1% and counted as 583,573.3 Million TL in 1991.

At the same time the foreign exchange deposits increased by 33.5%. This were because of decrease in the value of TL could not equalised the flexible interest rates and depositors directed to the foreign exchange.

In the same period of years, the deposits increase by 961.3% and by the consumer price index the increase in prices were 511.8%. At June 1992, Consumer Price Index reached to 798.41 and the deposits in TL index increased 1389.2.

CHAPTER III – FINDINGS AND ANALYSIS

PART I – Special Emphasis on Kıbrıs Altınbaş Bank Ltd. among Commercial Banks.

1.1. The Memorandum of Association and the Articles of Association

The name of the company is Kıbrıs Altınbaş Bank Ltd and the head office placed at Lefkoşa. Company shall exclusively carry out banking business and objects for which the company is established are as follows:

- a) Carrying out of banking business that is to say the acceptance of deposits, giving and receiving any credits any guarantees.
- b) While carrying out banking business :
 - i- To become the owner of movable and immovable property
 - ii- To carry out any transactions in connection with deposits, deposits in the “Investment Fund Account”, discount, foreign exchange, lending, finance, credits, interest, security, guarantee...
 - iii- To open branches in and out of TRNC.
 - iv- To cooperate with other banks in and out of TRNC.
- c) To employ the necessary staff for carrying of banking business.
- d) To give notices to newspapers and to prepare and publish advertisements.

A liability of the shareholders of the company is limited. The share capital of the company is 25,000,000,000. -TL

The articles of association includes the rules about shares, calls on shares, alteration of capital, general meetings, voting by the shareholders, directors, accounts, increase in capital, audit, dividends and reserves, finally capitalisation of profits.

1.2. The Financial Structure

As we can see from the Balance Sheet of the Kıbrıs Altınbaş Bank Ltd., dated 31 Dec 1997, the liquid cash in Central Bank counted as 488,252 million TL. The loans, credits and the advances counted as 1,303,753 Million TL. Besides the deposits and other liabilities counted as 1,894,099 Million TL and the tax payable counted as 2,135 Million TL. (Please See Table 12 and Table 13)

KIBRIS AL TINBAŞ BANK LTD.
BALANCE SHEET AS AT 31 DECEMBER 1997

(Million TL)

ASSETS		LIABILITIES	
Vault Cash and Reserve Deposits in Central Bank	488.252	Deposits and other liabilities	1.896.099
Cash Items in Process of Collection	107.434	Tax Payable	2.135
Loans, Advances and Other Assets	1.303.753	Borrowings	14.432
Companies shares	2.440	Subtotal	<u>1.910.666</u>
Expenses of Structure	3.365	Equity Capital	50.000
Net Equipment	62.581	Reserve Items	12.255
Interest Revenue and Expenses paid in Cash	2.555	Subtotal	<u>62.255</u>
Stocks	2.541		
Total Assets	<u>1.972.921</u>	Total Liabilities	<u>1.972.921</u>

Source: Kıbrıs Altınbaş Bank Ltd.
Head Office

TABLE 13

KIBRIS ALTI NBAŞ BANK LTD.
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 1997

	1997 Million TL	1996 Million TL
Interest, Commission and other Revenues	637.790	313.883
Interest, Commission and other Expenses	563.904	283.196
	<u>73.886</u>	<u>30.687</u>
Other Revenues	38.204	30.186
	<u>112.090</u>	<u>60.873</u>
Personnel Expenses	58.447	30.624
Administrative Expenses	41.032	19.797
	<u>6.271</u>	<u>4.216</u>
	<u>105.750</u>	<u>54.637</u>
Profit before tax	6.340	6.236
Tax Expenses	-2.135	-2.148
Profit After Tax	<u>4205</u>	<u>4088</u>
Profit From Last Year	-	21
	<u>4205</u>	<u>4109</u>
Distributions		
To Legal reserve	420	409
To Other Reserve	3785	3700
Transfer to Reserves	<u>4205</u>	<u>4109</u>

Source: Kibris Altınbaş Bank Ltd.
Head Office

1.3. International Activities

Kıbrıs Altınbaş Bank Ltd is the one of the Commercial Bank that helps importers and exporters to make international trade by the finance facilities of,

-Letter of Credit

-Letter of Guarantee

-Export credits

-Acceptance credits.

1.4. Money Creation

Kıbrıs Altınbaş Bank Ltd. as a one of the Commercial Bank create money with giving loans to the creditors.

When the goldsmiths were used gold as a medium of exchange, they were holding the deposits that enough for them to equalise the withdrawals and was give other gold to the creditors with a maturity date and with an interest rate. As the goldsmiths used gold at that times, today Commercial Banks use money in the same direction and start to make creation of credit or other named as multiple expansion of bank deposits. With a simple example, we can analyse the deposit expansion process:

Let's assume that DepositorA come to Kıbrıs Altınbaş Bank Ltd. and deposited \$10,000. -. Bank should keep 15% of the deposit amount in its reserve as \$1,500. - and the left \$8,500.- counted as possible loans and investments. Bank would give loan the amount of \$8,500. - to a creditor and that creditor would go and deposits to another bank. This process will continue. Each bank obtains smaller and smaller increases in deposits because 15% of each deposit must be held in reserve; therefore, each succeeding depository institution makes correspondingly smaller loans. (See Table Below)

Customer	Initial Deposit (\$)	Cash Ratio (15%)	Possible Loans
1	10,000	1,500	8,500
2	8,500	1,275	7,225
3	7,225	1,083.75	6,141
4	6,141	921.18	5,219
5	5,219	782.9	4,436
6	4,436	665.4	3,770
7	3,770	565.5	3,204
8	3,204	480.67	2,723
9	2,723	408.45	2,314
10	2,314	347.18	1,966
Totals	53,532	8,438.6	45,498

CHAPTER IV – CONCLUSION

4.1. Summary of The Findings

Thesis prepared in order to explore the effects of Commercial Banks in the Banking Sector and on these banks Kıbrıs Altınbaş Bank Ltd was chosen as an example. To understand how Commercial Banks effects Banking Sector, first of all I explained the concept of money and the concept of banks. Then I explained the rules of establishment of banks and gave the regulations of Central Bank on Commercial Banks. After that, I gave a special emphasis on Commercial Banks and explained their functions, financial structures and how they are managing their money. Furthermore, thesis tried to examine the economic fluctuations and their effects on banking sector. Finally, Kıbrıs Altınbaş Bank Ltd was chosen in between the Commercial Banks and gave the basis of establishment documents, examined their financial structure and besides for that, the creation of money explained in detail.

As a definition of money, there are several measures of money in today's economy. And this measurements going from narrow to abroad meaning the liquidity decreases. Banks are only the mediators in the money market, in order to use of money. Especially the Commercial Banks as its interest and exchange rates differ from economic fluctuations have much more importance in money market. As supply of money changes according to the Central Bank, Commercial Banks are arranging their interest rates, loans and implementations of exchange rates, but by the deposit expansion process, Commercial Banks are also flows the money into the market.

As TRNC uses the Turkish Lira that it is a currency of Republic of Turkey and as there are economic embargoes imposed on TRNC by all foreign countries except Turkey, every economic fluctuations in Turkey effects as a same direction to TRNC.

Kıbrıs Altınbaş Bank Ltd. is one of the Commercial Bank in banking sector. Everyday they use their time to develop by investments and by the supporting from firms of Altınbaş such as Altınbaş Petrol, Altınbaş Gıda and Altınbaş Yatırım Ltd.... In the light of this, they are trying to use money on the best efficient and effective way such as keeping foreign exchange or different uses of money at abroad.

As a summary, in the light of the bank taken as an example, Commercial Banks in TRNC are binding on the rules of Central Bank and Central Bank affected from Turkey's implementations on economy. So Commercial banks can be developed, but because of economic embargoes they could not reach the efficient place that they desired.

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4.2. The Limitations of the Research

As the research emphasis on Commercial Banks, detailed documents on the functions and implementations were only found from the bank, which was chosen as an example. The documents were written in Turkish Language.

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4.3. Recommendations for Future Research

In these kind of researches, it can be more emphasised on the fluctuations in the money market and their effects on the banking sector. By this, it can be clearer, the changes of interest rates exchange rates and the use of money in Commercial Banks.

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