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SEMINAR ON BANKING GRADUATION PROJECT

MERGERS &ACQUISITIONS IN THE TRNC BANKING SECTOR

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ABSTRACT

During the 1990s a large process of financial consolidation has taken place in the most countries Financial systems. Given the central role played by banks in the credit process and the economy in general, this process of financial consolidation has attracted substantial attention not only from managers and shareholders but also from borrowers and policy-makers. While in the North Cyprus there is little evidence on the effects of financial consolidation and the literature remains limited in North Cyprus. This study aims to shed some light on the consolidation process in the TRNC banking sector. The consolidation taken place between two public banks of Vakıflar and Akdeniz Garanti Banks. To accomplished the study aim, in this study we used three type of analysis method. These are common-size, annual percentage change and ratio analyses. These analyses based on the banks balance sheets and income statements information. In this study three type analyses methods use to find the result according to the merger of the Vakıflar & Akdeniz Garanti Banks. To understand the merger results we took 2000-2006 periods and the merger taken place at the end of the 2004. After 2004, we analyzed more two year until 2006 for show the effects of the merger in the Vakıflar bank. After the merger Akdeniz Garanti Bank merged to Vakıflar Bank. That's why; we focused on the Vakıflar Bank. Before the merger Vakıflar Bank position is good, but the Akdeniz Garanti Bank position is not good that seems like banking insolvency. As result of the merger Vakıflar Banks asset quality ratios, financial independency ratio and profitability ratios decreases. Broadly speaking, we can say that after the obligatory merger Vakıflar Banks profitability, asset quality and capital adequacy went to worse. Also if we check the balance sheet and income statement we can see the same picture. Consequently we can say that the obligatory merger affecting the Vakıflar bank badly.

CONTEXT TABLE

LIST OF TABLE

CHAPTER 1

INTRODUCTION

1.1 Aim of the Study

The aim of this study is investigate the result of the merger between Vakıflar Bank and Akdeniz Garanti Bank. Examining this merger is important to understand the merger activity importance in the banking sector.

1.2 Broad Problem Area

After 2001 crises, some banks feld into banking insolvency and the authorities took these banl into deposit insurance fund. After this action some banks liquidated and some mergered with oth banks. Therefore Akdeniz Bank mergered with Vakıflar Bank at 2004. This merger is the subject of th study.

1.3 Methodology

In this study, common size, annual percentage and ratio analysis used to final the effects Vakıflar Bank and Akdeniz Garanti Bank mergers in the banking sector.

1.4 Structure of the Study

The first chapter shows the aim of this study, broad problem statement, methodology and t structures of the study. The second chapter, I'm going to give and explain mergers and acquisition. the third chapter, I will try to explain of annual report and accounts Akdeniz Garanti Bank and Vakıf Bank individually and then mergers and acquisition of two banks together.

CHAPTER 2

MERGER AND ACQUITIONS

2.1 INTRODUCTION

Over the past decade the banking industry has experienced an unprecedented level of consolidation as mergers and acquisitions among large financial institutions have taken place at record levels.[1] In the last three years alone more than 1500 mergers have occurred in the US market. To a large extent, this consolidation is based on a belief that gains can accrue through expense reduction, increased market power, reduced earnings volatility, and scale and scope economies. Whether or not bank mergers actually achieve the expected performance gains is the critical question. If consolidation does, in fact, lead to value gains, then shareholder wealth can be increased. On the other hand, if consolidating entities does not lead to the promised positive effects, then mergers may lead to a less profitable and valuable banking industry. (Pilloft, 97).

Mergers and acquisitions have significantly changed the U.S. banking industry over the past quarter century. For example, during the 1980-2003 periods the number of banking organizations decreased from about 16,000 to about 8,000, and mergers of healthy institutions were by far the most important cause of that consolidation. During that period, the share of industry assets held by the ten largest commercial banking organizations(ranked by assets)rose from 22 percent to 46 percent, and the share of industry deposits held by the ten largest (ranked by deposits) rose from 19 percent to 41 percent. (Pilloft, 94).

Mergers and acquisitions have existed in market economies since at least the last third of the 19th century and they quickly spread to the banking industry: e.g. the number of banks in England decreased from 600 in 1820 to 55 in 1914.

1. Throughout this paper, the terms merger and acquisition are used interchangeably.

In the first half of the 20th century the process slowed due to antimonopoly legislation. In the last decades, the antimonopoly of the USA has been liberalized to a significant extents, while that of the EU has remained relatively rigorous allowing bank mergers only where the economic advantages outweigh the potential loss arising from the restriction of competence through their implementation.

2.2 General Definition of Merger and Acquisition

During the second half of the 1990s, the most frequent words used in reports on banking were 'merger' and 'acquisition'.

Merger is defined as the combination of two relatively comparable organizations –joint stock companies; acquisition is the take-over of a smaller company (joint stock company) by a larger one whilst in both cases the two companies merge voluntarily on the basis of a contract, there are also cases of so-called hostile takeover, in which the merger takes place so that the larger company acquires a controlling interest in a weaker bank or otherwise wins over the bank's majority shareholders against the will of the management. While the legal personality of the original entities usually ends in a merger, it is usually maintained in the case of an acquisition.

In a number of cases, the merger is preceded by a transitional phase, the so-called phase of strategic alliance, which is used mainly in cross-border co-operation. On the basis of a strategic alliance agreement a large foreign bank can sell its products through a local bank's network of branches. Such cooperation can also be seen on the domestic market, where a small bank uses the services of a large bank, e.g. in the area of cross-border payment operations.

The main reason, which is common for mergers and acquisitions, is the effort to improve the financial situation of the company concerned and to gain a better position on the market.

Banking is becoming an increasingly global industry, which knows no geographic and territorial boundaries. The trend towards mergers and acquisitions in banking is also affected by the unprecedented growth in competition, and continued liberalization of capital flows, the integration of national regional financial systems, financial innovations, etc.

The goals of mergers and acquisitions can be divided into strategic goals, which cannot be quantified as a rule, and to quantifiable financial goals, primarily to economies on costs.

One of the main reasons for bank mergers is to reduce costs, extend the range of products and services, increase the market share, participate in the process of privatization (in transition economies), diversification of risks and geographic diversification, improvement in solvency, transfer of knowhow, etc.

Most bank mergers in the take place within a single country; cross-border mergers are exceptional. The main goal of cross-border mergers is to fill the gaps on the market for banking services and to gain access to an existing network of branches, which would otherwise have to be built at great cost. In addition, a number of other factors are involved in the process, such as attempts to obtain tax advantages, personal ambitions of managers, etc. In the past few years, professional literature on banking has paid increased attention to mergers and acquisitions. Numerous papers have been published about the advantages and disadvantages of mergers and acquisitions, and about the most effective form of their implementation. Increased attention is being paid to the calculation of the actual value of the acquired entity, which is of vital importance for determining the purchase price (assessment of the quality of assets, etc.).

Apart from savings and cuts in prices for services, mergers are attended by certain negative Consequences and risks as well. Mergers necessarily lead to changes in the organization of banks, causing a fall in the number of employees. Newly established large banks may restrict competition and thus breach the rules of economic competition. A well-known phenomenon is, including Slovakia, that these banks often become too large to be allowed to 'fail', which may lead them to pursue a careless lending policy, relying on the fact that they will be saved by the state or by international institutions.

The concentration of banking in a few institutions may also increase the likelihood of a banking crisis. The risks involved in bank mergers were recently emphasized by Alan Greenspan, Chairman of America's Federal Reserve System, when he spoke about the dangers of mega mergers in the banking sector. Mergers and acquisitions have existed in market economies since at least the last third of the 19th century and they quickly spread to the banking industry.

2.3 THE BANKING and FINANCIAL SERVICES SECTOR

2.3.1 Background

Mergers and acquisitions (M&As) are a global phenomenon, with an estimated 4,000 deals asking place every year.[2] However, they are not a recent development; four periods of high merger activity, also known as merger waves, occurred in the United States (1897-1904,1916-29, 1965-69 and 1984-89) before the current one that began in the early 1990s. This later wave has attained exceptional levels in terms of sheer value and volume of transactions. In the United States, M&As have been instrumental in the decline in the number of banking organizations – between 1980 and 1997 they decreased from 12,333 to 7,122. Europe has also experienced similar M&As; examples include: *Unicredito/Creditor Italiano and Generale Bank/Fortis in 1998;* and *UBS/SBS, ING/BBL, Credit Suisse/Winterthur Group and Vereinsbank/Hypo bank* in 1997. Between 1980 and 1995 the number of banking establishments in Europe fell, particularly in Denmark (-57 per cent) and France (-43 per cent), (Geneva, 2001).

Proponents of financial sector consolidation argue that institutions need size to spread growing information technology and processing costs over larger revenue bases. Another key factor is the need for greater market capitalization, with governments and financial sector regulators accepting financial operators' arguments that greater size is crucial to cost-cutting and strong national institutions. Small countries are also encouraging consolidation to counter growing competition from larger institutions in neighboring countries.

2. The changing landscape for Canadian financial services, research paper prepared for the Task Force on the Future of the Canadian Financial Services Sector (Ottawa, McKinsey and Company, Sep. 1998).

Developed countries are the most important sellers and buyers in cross-border M&As, accounting for close to 90 per cent and 95 per cent of sales/purchases in 1998-99, respectively. Of the 5-10 per cent of sales/purchases involving developing countries the bulk (70 percent) originates in Latin America and the Caribbean. The value of cross-border M&As sales by developing countries increased from $12 billion in 1991-95 to $61 billion in 1996-99. M&As purchases by firms from developing countries rose from an average of $8 billion in 1991-95 to $30 billion in 1996-99 (Geneva, 2001).

Acquisitions are considerably more important than mergers in developing and transition countries. In developing countries, cross-border M&As sales fell in 1999, largely caused by reduced privatization activity in Latin America, where the value of cross-border M&As fell from $64 billion in 1998 to $37 billion. In developing Asia, they continued to grow, including in the country's most affected by the 1997 financial crises. The value of cross-border M&As sales in Central and Eastern Europe doubled between 1998 and 1999 from $5 billion to $10 billion.

This M&A-driven consolidation is raising important public policy concerns, notably with respect to employment. Indeed, the announcement of a merger is usually accompanied by an announcement of cost-cutting redundancies in the merging organizations, often on a massive scale. To gain full merger benefits, two overlapping organizations are compressed into one, trimming duplicated operations which entails redundancies at all levels. Nevertheless difficult to disentangle the employment effects of M&As from those of other factors such as increased competitive pressures, automation or the introduction of information and communication technologies which are similarly inciting organizations to restructure even in the absence of M&As (Geneva, 2001).

2.3.2 The Financial Services Sector: Characteristics, Role and General Trends

Financial services support employment in two ways: as a source for high quality employment and through a pivotal role in providing credit to other sectors. A well-functioning financial sector is essential in financing the operations of an economy through both intermediation (borrowing money from one sector to on-lend to another) and through auxiliary services such as securities broking and loan flotation, where financial enterprises arrange the processes of funding but do not step between the borrower and lender.[3]

The institutions, services and products that comprise the financial sector vary from country to country, but generally include: the central bank; depository organizations such as banks, building societies or mortgage banks; credit unions or cooperatives; insurance and pension funds; general financiers; cash management firms; and others engaged in financial intermediation. The last category might include securitizes, investment companies, leasing companies, hire purchase and the provision of personal and consumer credit. In some instances, a wider perspective needs to incorporate not only the finance sector but also the business services that support its operation (Geneva, 2001).

The financial system in any country has three overlapping components - financial enterprises (such as banks) and regulatory authorities; the financial markets (for instance, the bond market) and their participants (issuers and investors); and the payment system – cash, cheque and electronic means for payments – and its participants (e.g. banks).

The interaction of these components enables funds for investment or consumption to be made available from savings in other parts of the national or, increasingly, international economy. Financial institutions mainly engage in intermediation and provision of financial services – for example, by taking deposits, borrowing and lending, supplying all types of insurance cover, leasing and investing in financial assets.

3. Australian Bureau of Statistics: Finance (Canberra), ref. 5611.0, 1999.

Banks in most countries are the largest deposit- takers and financial services providers, but the market shares and power of other organizations like insurance companies is increasing. Banks and insurers are also among the largest and most profitable enterprises in both domestic and global markets. This is hardly surprising, since money the business of financial services, went global before 'globalization' became a buzzword; however liberalization and technological advances are increasingly pushing the sector towards greater globalization in which M&As are both a cause and a consequence. Sixty-four banks and 53 insurance companies figure among *Fortune Magazine's* Global 500 (Geneva, 2001).

2.3.3 Factors Driving M&As

Academics and other observes advance value-maximization[4], managerial ego, mimicry the need to reduce uncertainty and defensive considerations (acquire to avoid being acquired; ensure that growth keeps up with that of competitors, etc.) and high levels of corporate reserves and share valuations among the motives behind consolidation in financial services

Supporters of M&As allege that they facilitate synergies between merged organizations, generate efficiency improvements and increase competitiveness. Indeed, they hold that mergers, by increasing economies of scale and spreading costs over a larger customer base, enable financial operators to provide services at lower prices. Demonstrating that M&As improve efficiency is thus central to making the case for the consumer benefits of mergers and in assessing their potential impact on consumers.[5] If mergers improve efficiency, then larger, combined firms may be expected to pass some savings on to consumers through lower prices or improved service (Geneva, 2001).

4. A.N.Berger et al.: Journal of Banking &Finance, Vol. 23(Elsevier, Netherlands, 1999), pp.135-194.

5. S. Sinclair: Bank mergers and consumer protection in British Columbia, prepared for the British Columbia Task Force on Bank Merger (1998).

If mergers are primarily cost-cutting exercises, involving job and branch closures, the impact on consumers is most likely to be a lowering in the quantity and quality of services; individuals are affected by branch closures in rural regions and low-income urban neighbourhoods and have to bear the brunt of a generalized decline in quality resulting from reduced effort in certain product lines or service modes (e.g. teller service, cheque-cashing, transaction and other basic service).Those opposing financial sector M&As strongly contest their consumer gains and maintain that they only result in employment losses and diminishing access to services. Claims that small businesses – generally agreed to generate most employment worldwide – also benefit from mergers have met with considerable scepticism among those businesses themselves. Studies have indeed revealed that larger financial institutions tend to charge more and higher fees than their smaller counterparts and note an inverse relationship between the sizes of financial institutions and their loan portfolios to small businesses.

Assertions that size generates economies of scale essential to compete in global markets have similarly been disputed on the grounds that size is irrelevant to international competitiveness and cross-border mergers (so far rare among financial M&As outside the Nordic region) would be more logical to international competitiveness. It has been argued from a pro-merger perspective that, rather than size problems, banks have 'excess capacity in their domestic markets, which drives up their costs, making them uncompetitive both domestically and internationally'. According to this argument, mergers enable rationalization of networks and associated cost reductions (Geneva, 2001).

Whatever the arguments many countries' competition policy in the financial sector is tending towards an easing of regulations and the elimination of obstacles between different market segments to promote greater competition among financial institutions. A paradox of these policy changes is that they seem to be encouraging concentration and formation of oligopolies, rather than increased competition, although the ability of technology to lower entry barriers to new types of financial service providers somewhat reduces the power of concentration. Furthermore, United States and European case studies suggest that despite the fact that M&As in the financial industry may be partly driven by potential efficiency gains, managers and governments, who appear to have more influence over consolidation decisions for financial institutions than for non-financial firms may have other motives.[6]

6. A. Berger et al., op.cit.

Empire-building is included among possible non-value-maximizing motives given that executive compensation tends to increase with firm size, although part of the higher compensation of managers of larger institutions rewards greater skill and outcomes. Banking organizations may overpay for acquisitions when corporate governance structures are insufficient to align managerial incentives with those of owners; what is more, management teams with large ownership stakes often block outside acquisitions.

Many financial executives argue that preventing consolidation and the efficiency gains M&As make possible would be tantamount to forcing enterprises to engage in 'social policy' through retaining unnecessary levels of employment and preserving distribution outlets that would be redundant in the event of a merger. They therefore believe that M&As are part of necessary restructuring to improve efficient use of resources – which can only be beneficial for long-term employment. But opponents stress the fact that financial sector operators lack transparency and accountability with respect to the social and economic impact of sect oral consolidation. They argue that privately owned financial institutions perform essential public functions and so government regulation is the corollary of the rather privileged and profitable positions these companies enjoy.

In most countries, the scope of regulation relative to M&As is narrowly focused on financial probity and competition issues; however, in some countries – such as the United States – a degree of socio-economic accountability exists.

The Community Reinvestment Act (CRA) provides benchmarks under which bank performance on loans, investment and consumer service is measured whenever banks apply to expand their operations. Critics of mergers among financial service companies believe that an adaptation of this approach is needed to ensure consideration of the employment effects of organizational changes and to enhance transparency and accountability. Similarly, systematic tracking of banks' transactions with the small business community may now be timely (Geneva, 2001).

2.4 Obstacles to success in financial services M&As

The 1993 ILO study on banking[7] noted that efficiency improvements through mergers were frequently overestimated. Contemporary research confirms this observation. Worldwide, two-thirds of mergers end in failure – some because of staff hostility and others because of insufficient preparation and inability to integrate personnel and systems. Even more failures are due to irreconcilable differences in corporate cultures and management. This chapter examines a number of obstacles to mergers and acquisitions in the financial services

2.4.1 The race for size – An obstacle course?

Most retail banks try to obtain economies of scale by expanding – either by extending their networks or widening their range of products and services. However, there is no automatic link between size and profitability. In fact, this attempt to expand can often produce the opposite effects. The complexity of managing large operations can nullify the benefits and losses related to top-heavy organization are often underestimated. The lack of transparency of financial activities and the fragmented nature of debts and capital, especially for megabanks, prevent creditors, shareholders and regulators from imposing discipline. Internet banking is also a challenge with which large banks have to contend (Geneva, 2001).

Moreover, public policy requires banks, as well as other financial institutions, to be closely supervised because their activities have such impact on the financial system and the economy as a whole.

Strong, efficient and profitable financial institutions are vital to economic success, especially as an engine of economic vitality through their role in creating and maintaining credit systems for other sectors, not only nationally but globally. In this framework, regulation is essential to avoid system failures that have devastating consequences, as was the case in South-East Asia in 1997.

7. ILO: Social effects of structural change in banking, Tripartite Meeting on the Social Effects of Structural Change in Banking, Geneva 1999.

National regulatory frameworks are therefore being revised to ensure financial services adhere to prudential principles and competitive imperatives (Geneva, 2001).

2.4.2 Regulation

During the 1990s, financial system controls in many countries were strengthened and initiatives were taken to increase transparency of institutions' financial statements and their risk management practices. For instance, the central banks of the Group of Ten adopted a report in 1994 on procedures for communication on market and credit risk; in 1995, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) published guidelines on the subject; and in 1997 the Basel Committee adopted 25 core principles for effective banking supervision widening the areas for international harmonization. In more general terms, central banks wanted to make firms assume greater responsibility for managing liquidity and credit risk in payment and settlement systems. When financial difficulties were widespread in some case, the authorities opted for a rationalization of the banking sector.

Trade union organizations such as the International Federal of Commercial, Clerical, Professional and Technical Employees (FIET, now UNI), have recognized that with banking system there is a need to 'accommodate wider interests than the financial interests of the individual bank or even of banks collectively', contending that there is a good public interest associated with systematic stability that affects the monetary system as well as national and international ecomies. They argue for a broad-based, independent commission to look at regulation of international financial markets, rather than the behind-closed-doors approach being adopted for the Financial Stability Forum (FSF) at Basel. FIET (UNI) believes that such a Commission should redefine the role of the key institutions (IMF, World Bank, OECD, Bank for International Settlements, Basel Committee on Banking Supervision) to create global system of governance for international financial markets and seek to ensure that structural adjustment programmed also consider human rights, job creations and poverty reduction. Among the measures advocated to curb the damaging effects of short-term capital flows are: an international tax on foreign exchange transactions; minimum deposit requirements with stable dollar, euro and yen financial blocs; and open and transparent banking systems with effective disclosure and satisfactory minimum reserves (Geneva, 2001).

In the United States, several federal banking agencies and the Justice Department have authority to review all bank merger proposals. Policy standards for bank consolidation were modified in the 1980s on the rationale that deregulation and market innovation had substantially made the structure of local banking markets more competitive. Their modified policy has resulted in approval of almost all bank mergers, including those of the largest banking organizations. Some organizations feel that there is little evidence that consumers and small businesses have gained from greater efficiency and competition (Geneva, 2001).

Even though carefully scrutinized for anti-competitive structural effects on local markets, they have had anti-competitive consequences; and the bank consolidation movement is producing new structural configurations that tend to restrain competition.[8]

The repeal of the Depression-era Glass-Steagall Act in the United States in 1999 lifted long-standing prohibitions on banks, stock broking houses, security firms and insurance companies from venturing into one another's businesses. These constraints had already been eased in 1997, allowing a number of important acquisitions during the period 1997-98. These reforms are expected to result in the emergence of financial services and products from banks, stockbrokers or insurance companies (Geneva, 2001).

In the Caribbean, an important issue has been regulation of near banks. Until recently, these were either unregulated or subject to less stringent regulation than commercial banks as they were considered outside the responsibility or supervision of the central bank. Within a framework of liberalization and deregulation, changes have been made to strengthen supervisory capability in the region. In Jamaica, the Financial Sector Adjustment Company (FINSAC) was formed in 1997 to oversee the restructuring and consolidation of problem institutions. The restructuring exercise consisted of three phases of operations: intervention, rehabilitation and divestment.

8. G.A. Han week and B. Shull: The bank merger movement: Efficiency, stability and competitive in Antitrust Bulletin (New York, 1999)

The intervention phase involved the negotiation of agreements with troubled institutions with the aim of closing, supporting or acquiring them – in some cases involving the Minister of Finance who would put the institution under temporary management under the powers provided in banking laws. Intervention sometimes involved the negotiated acquisition of the group for a taken amount, with FINSAC thereafter assuming its assets and liabilities. The extent of intervention is reflected by the fact that FINSAC now has investments in over 150 companies, including 15 banks and 21 insurance companies.

The banking system in the Republic of Korea has been undergoing extreme declines in balance sheet quality since 1997. To some degree, the problems of the banking industry stem from longer term structural problems, such as low profitability, relatively undeveloped credit analysis systems and lack of independence on the part of bank management. Owing to the complex corporate structures of *chaebols* and extensive cross-guarantees, the number of insolvencies mounted rapidly in the late 1990s. The Government has introduced measures to reconstruct the financial system in line with practices to supervise institutions and markets. Consolidation of existing supervisory bodies led to the creation of a new agency – the Financial Supervisory Commission (FSC) – to supervise all financial markets and take charge of restructuring the banking system in 1998. Foreign ownership of up to 100 per cent became possible. As foreign owners reach the thresholds of 10 per cent, 25 per cent and 33 per cent of total equity, they will be subject to increasingly strong review by the FSC.

In May 1999, the European Commission published an action plan for implementing the framework for financial markets.[9] The document notes that, although considerable strides have been made since 1973 towards providing a secure prudential environment, the Union's financial markets remain segmented and business and consumers continue to be deprived of direct access to cross-border financial institutions (Geneva ,2001)

The Commission underlines the necessity of creating a common framework to guarantee the transparency and fairness of public acquisition bids which protect minority shareholders.

9. European Commission: Financial services: Implementing the framework for financial markets, action plan, Communication of the Commission (COM (1999)232).

The proposal for a 13th Company Law Directives (takeover bids) is intended to harmonize legislation among Member States. In June 2000, European leaders were on the verge of launching a sweeping review of how to manage a single market in financial services, reflecting concerns that the supervision and regulation of financial services in Europe could not cope with radical change in the banking and insurance sectors caused by the launch of the euro, cross-border mergers and the impact of globalization. Many banks and financial services providers have urged the EU to move towards a more integrated European capital market. But banking supervision and regulation remain mostly the responsibility of national authorities. European banks argue that the rise in Internet banking will highlight the discrepancies in national legislation and that new rules for electronic commerce will leave physical banks subject to a different set of rules from their online competitors (Geneva, 2001).

At the national level in Europe, bank mergers are subject to review by the banking authorities and often may even require prior government approval. In European countries such as Italy and France, all takeover bids must obtain the approval of the respective supervisory authority, which is not always forthcoming. In 1999, applications by major banks in both countries were blocked. In France the supervisory authorities often base their decision on an appreciation of the effects of the merger on the future health of the banking system, after reviewing each institution's accounts to ascertain whether prudential rules would be respected, especially regarding the ratios between debt and capital levels. The exercise is thus focused avoiding risk to the system and often does not concern itself with the probability that the merger might result in excess concentration. Responsibility for reviewing the competitive aspects of important non-Community mergers in France lies with the Economic Affairs Minister who may undertake an evaluation on the recommendation of the Competition Council.

In other European countries, various supervisory authorities exercise similar roles:

- in Switzerland, the Swiss Federal Banking Commission is responsible for the examination and approval of M&A proposals – each time there is a change in ownership – and all proposals are subject to review by the Competition Commission;

- In the Netherlands, M&A applications require prior approval of the Minister of Finance who must consult the views of the central bank before taking a decision; however, the Minister may reject the application even if the central bank favors it. The opinions are based on three criteria:

the sound financial health of the applicant; the likely viability of the new entity; and a finding that the merger would not result in abuse of dominant position;

- in Spain, all banking M&As require prior approval of the Minister for the Economy who bases the decision on the report of the state banking council; the banking and financial services commission must verify that the buyer will not threaten the stability of the acquired bank;

- In Italy, the *Banca d'Italia* has delegated responsibility in an anti-trust authority in the credit sphere, so as to eliminate 'those factors which are adverse to competition and accentuate those which are conducive to it'; a 1999 Act[10] addresses the potential negative effects of conglomerates on competition.

Bank regulation poses another obstacle to M&As worldwide. Although some current demutualization of previously mutual banks and insurance companies was driven by the need to expand access to capital and financial markets, many banks are unable to tab the loan and bond markets to finance acquisitions – partly because they cannot borrow as freely as industrial companies. Limits on banks' capital ratios mean they cannot leverage their balance sheets to buy competitors.

2.4.3 Legal Status of Financial Institutions

Mutual and cooperative banks continue to play important role, especially in continental Europe. A product of national social and economic history, their legal status, which prevents stock exchange listing, constitutes an obstacle to M&As. These institutions, which generally include savings funds or agricultural banks, have resisted adopting purely capitalist structures and thus modifying the balance of internal power for fear of losing their historical and local rationale. While consolidation has happened among this category of institutions at the national level, cross-border tie-ups are much more difficult because the purchase of a foreign institution of comparable size could only be envisaged through market financing or the exchange of shares.

10. Section 6 of Act No. 287 of 10 October 1990: Nor me per latutela della concorrenza e del Mercado (standards to protect the market and competition.

Nevertheless, the status of this type of institution does not prohibit them from minority holdings – sometimes quite considerable – in foreign financial institutions. Neither does it prohibit alliances and other partnership arrangements, including in banc assurance. The merger announced in October 1999 between mutual banks in the Netherlands and Germany, joined by a major credit cooperative in Italy, will serve as a trial run in this type of consolidation (Geneva, 2001).

2.5 Impact of M&As on Working and Employment Conditions

A merger or takeover in many ways invalidates the employment contract: the worker is now working for someone else, but without having taken any steps to change employers.[11] it brings home in the most emphatic manner the one-sideness of the employment relationship and the fact that workers have no control over the decisions of their employer. M&As have sometimes been described as a legitimate means for breaking implicit contracts in order to restructure. The firm is a nexus of implicit and explicit contacts which only work on the basis of trust between managers and workers, itself underpinned by beliefs and assumptions regarding mutual responsibility between employer and employee (the 'psychological contract'). Job security derives more from assumptions which M&As have the effect of disrupting. A change of management allows alterations in implicit contracts, facilitated by the fact that change is indeed expected. Rightly or wrongly, M&As can thus appear a deliberate strategy to violate internal norms and as a brute exercise of power.

Most importantly integrating differing company systems and procedures requires harmonization of various aspects of terms and conditions of employment: pay scales, job titles, entitlements and other benefits, job descriptions, reporting and supervisory lines are all subject to revision to ensure common practice in the newly combined organization (Geneva ,2001).

11. G. Collins and J.Wickham, op.cit.

Another important consequence of restructuring is the growth of non-standard forms of employment variously defined as pert-time, temporary or contingent work.

An ILO report[12] identifies two basic pressures on enterprises to expand non-standard employment. The first is the pressure to shift labor from a fixed to a variable cost, particularly in countries where collective agreements increase the fixed costs of employment and labour legislation does not cover non-standard forms of work. The second is to shift work away from high-cost internal labour markets to more competitive, lower-cost external labour markets. A third possible pressure favouring the adoption of non-standard work is the introduction of a system of high-performance work organization, with its emphasis on flexibility, responsiveness and just-in-time production. A mid-1990s study in the United States confirmed that companies relied on temporary or contingent workers for the flexibility to respond quickly and effectively to changing market conditions (Geneva, 2001).

Non-standard work is growing in many developed countries. In the United States it now accounts for roughly 30 per cent of employment, with the number of temporary workers having almost tripled since the early 1980s. In Europe part-time work has grown rapidly, especially in countries where it is one of the few ways for employers to avoid the high fixed costs of regular employment. In 1999, almost one in three workers in Switzerland, or 1,139,000 out of 3.9 million, were on part-time. As might be expected, part-time work is largely feminine, with more than one in two women compared to one man in ten. Significantly, 82 per cent of posts with reduced hours are occupied by women. Relative percentages for the Australian finance sector are 29 and six for women and men respectively, while part-time work as a whole in the Netherlands accounts for 39.4 per cent of total employment.

In Japan, several factors, including an increased focus on short-term returns rather than the traditional attachment to long-term employment relations, have increased the share of part-time work to 25 per cent of all jobs[13] (Geneva, 2001).

12. ILO: Training for employment: Social inclusion, productivity and youth employment, Report V, International Labour Conference, 88th Session, Geneva, 2000

13. S.Inove: Japanese trade unions and their future: Opportunities and challenges in an era of globalization (Geneva, ILO, International Institute for Labour Studies, 1999)

2.5.1 M&As Remuneration and Other Compensation Issues

Two conflicting aims appear to characterize current practices in financial sector remuneration: the need to reduce labour costs within a context of increasing competition and decreasing profitability and the necessity to compensate and adequately reward employee performance and commitment within an environment of continuous and challenging change.[14]

Recent trends in compensation policies are moving towards more contingents, individualized and explicitly performance-based systems, while seeking to retain workers' loyalty and commitment to organizational goals. This might explain why changes in compensation have tended to be less dramatic than expected compared with both current rhetoric and experience in other industries. The main exception to the industry trend is the United States, where in the absence of a collective wage agreement or any kind of coordination between banks in wage setting, wide differences in compensation levels both between and within financial institutions have always been the rule. Sales-based bonuses, either individual-based (as for lenders in wholesale operations) or distributed – via managers – to branch offices, are the most widespread example of incentives, while commissions have become common for crucial jobs, such as investment advisors.[15]

The gradual sector-wide shift from pay and reward systems based primarily on age and length of service, to one based on job evaluation, has gone some way in recognizing changing employment relationships and providing a common base for establishing pay procedures even after M&As. Trade unions argue, however, that changes to the psychological contract including erosion in job security have been so great as to require a rethink of reward systems. Workers' most common concerns are linked to what they consider a lack of transparency about the process; a perception that performance assessments are too subjective; and belief that line managers are insufficiently trained to assess performance. The trade unions point to an inherent contradiction between objectives requiring team-based work and performance assessments focusing on individual contribution and call for better balanced individual and team-based rewards.

14. M.Regina, J.Kitay and M.Baethge: From tellers to sellers, op.cit. p.19

15. Ibid.

A similar disconnection is identified between performance management schemes and desired productivity outcomes as well as the lack of mechanisms for recognizing consistently good performance, suggesting that pay should be determined by analyzing outcomes and employee contributions to their achievement. Many workers believe they are not properly rewarded for embracing changed employment conditions and for their contribution to company performance. A recent survey of over 3,000 employees in a major Australian bank reflects the perception that companies' reward systems are failing to gain their worker commitment and identification with corporate goals. Nearly 70 per cent felt performance bonuses were unfairly distributed, 67 per cent did not believe there should be salary reductions even if performance declined while 40 per cent did not consider performance appraisals were fairly conducted. Only 27 per cent were even confident they understood the new performance management system. A similar survey of 2,700 employees in another bank revealed that only 18 per cent of respondents believed their employer's bonus and incentive scheme was well designed and fairly paid (Geneva, 2001).

The introduction of a new performance-related pay system at a bank in the United Kingdom, which led to a strike, underlines the possible consequences of getting the system and process of introduction wrong. Avoiding such problems may require including the principles or processes of performance-based reward systems in enterprise agreements after appropriate consultations with workers' representatives. Indeed, a recent collective agreement in a major insurance company sets out agreed principles for the creation of a 'competitive, equitable and transparent process' and establishes a joint partnership arrangement between the company and the union for the introduction of a new system of job classification and evaluation.

Another area of interest relates to flexible pay and decentralization of the bargaining structure. According to the European Industrial Relations Observatory (EIRO) in the 2000 bargaining round, large employers in the Netherlands have sought more flexible pay systems, while trade unions have opposed virtually all such arrangements. In Sweden, the *Finansförbundet (*Finance Union – FSU), reports greater orientation towards individualized pay. Banks have instituted bonus and stock-option schemes. *MeritaNordbanke,* the biggest bank, provides special three-year bonuses for staff it considers indispensable.

Decentralization, which the unions accept to a certain degree subject to continued regulation of pay and working hours at the central level, is also gaining ground both at sect oral level and among larger groups of companies. Employers' associations consider the simplification of current collective agreements – allowing different issues to be regulated at different levels – necessary to reduce detail and bulkiness. Trade unions are not opposed to the idea in principle, but purpose a three-tier structure of economy-wide framework agreements mainly for : occupational social security; sect oral agreements on pay, working hours, job evaluation and other remuneration-related elements; and enterprise-specific issues regulated in consultation with works councils (Geneva, 2001).

Many companies, including financial institutions, believe that converting their workers into shareholders can be an effective tool for employee reward and anti-takeover defense, as worker-shareholders would almost certainly oppose any hostile bids for their enterprise. Banking has a greater tendency than many other sectors to award employees share options through employee share ownership programmed (ESOPs) as supplements to basic pay. ESOPs were very popular in the United States during the 1920s when share prices were rising and Americans widely owned stock.[16] The 1929 market crash and the subsequent depression made shares less popular as compensation. The growth in ESOPs in the 1980s is linked to their significant role in M&As and leveraged buyouts (LBOs). ESOPs have been used in these operations in two main ways: as a financing vehicle for the acquisition of companies, including through LBOs and as an anti-takeover defense. An ESOP-based bid has important tax benefits, Helping lower the buyout cost and their voting power can bolster anti-takeover defenses.

Globalization is tending to encourage a convergence in financial services salaries, at least in investment banking. End-of-year bonuses, often paid in a combination of cash, stock-options so stocks, have become generalized. The level of executive compensation, particularly fees and commissions related to M&A services, is itself usually a function of the number and value of deals.

16. P.A Gaughan: Mergers, Acquisition and Corporate Restructuring, second edition (New York, John Wiley and Sons, 1999.

2.5.2 M&As and Working Time

The link between financial sector concentration and patterns in regular working time is difficult to identify because working-time agreements depend upon the national context and are not limited to the sector under consideration.

Banks' adoption of the retailing model is encouraging them to adjust their hours to consumer requirements, extending opening hours on at least one day a week and even opening some branches on traditionally closed days such as Saturdays – a trend which has aroused strong trade union reactions in a number of countries. It goes without saying that M&As can provide an opportunity for management to opt for more customer-friendly working Hours (Geneva, 2001).

In Germany, working time was at the centre of an industrial depute in the banking sector in 1999, when bank employees protested against plans to make Saturday a normal working day. Employers agreed to grant compensatory free time for work on Saturday for incumbents but not for future hires. A number of independent studies conclude that the German banking sector could lose at least 100,000 jobs in the next five years if the current race for critical mass in the sector continues. To balance this trend, HBV (the sect oral trade union) has been pushing for a 35-hour working week in all banking establishments. In France negotiations on a new collective agreement broke down notably on the issue of working time. Agreements have been negotiated within each financial group, but employers are determined to have the option to increase the use of part-time workers. Between 1947 and 2000, weekly working hours in French banks consistently declined from 45 to 35 hours and in Belgium the trade union umbrella organization, ACV-CSC and the trade union federation, *Landelijke Bedizened Centrale-Nationaal Verbond voor Kaderpersoneel* (LBC-NVK), report that bank workers have been able to obtain a 35-hour week.

In Australia, the FSU reports that two years after a restructuring and downsizing-related continuous improvement programmed in the Commonwealth Bank, 84.8 per cent of surveyed managers reported an increase in their overall workload, while 77 per cent reported an increase in the number of hours they worked. According to the same trade union, unpublished ABS figures also show more than a third of finance workers usually work overtime, without financial compensation for more than a third of them. Close to a million hours of overtime are worked in the sector each week (equal to 25,707 fuu time jobs at 38 hours/week or 24,421 at40 hours/week), reflecting the fact that almost 40 per cent of fuu-time workers put in more than 45 hours per week (or seven hours more than the normal weekly working time); 69 per cent of these workers receive no pay for the overtime. The union draws attention to the coincidence of such unprecedented levels of overtime and the high number of mergers. Restructuring and downsizing that have resulted in the loss of up to 36,000 full-time jobs – close to a 30 per cent drop in employment in consolidating organizations over a period of record profitability. It highlights the incredible pressure on workers to complete tasks, achieve targets and sell products to justify their continued employment (Geneva, 2001).

2.5.3 M&A s Factors of Stress and Demotivation

A number of studies highlight the close association between restructuring and mass lay-offs and a 'survivor's syndrome', resulting from the destructing of psychological contracts. Lay-offs and other restructuring processes introduce an element of unpredictability in deep-seated employee assumptions, creating feelings of loss of control, betrayal and unfairness. As staff suppress their anger and mistrust, their negative feelings trigger reactions ranging from generalized stress to demoralization, depression and burnout; these, in turn, lead to decreased productivity and stunt creativity. Managers suffering from their own strain of 'survivor's syndrome' often compound the problem by failing to recognize and respond to it in productive ways. Survivors are not only expected to be grateful for being retained, but to put feelings aside and work harder. Not surprisingly, poor morale due to lay-offs of friends and colleagues and increased job insecurity of retained staff is by far the worst human resource problem in today's business climate (Geneva, 2001).

Given that successful management of the restructuring process is vital for achieving organizational objectives, managers need to be aware that downsizing is more than a reduction in head count and work reorganization. Terminations destroy the firm's social fabric as structures are altered, relationships disrupted and work patterns and communication flows modified, making it more difficult for retained staff to do their work. These structural problems may inhibit performance so that staff need help to cultivate new ties, although insufficient attention is usually given to the intricate relationship between the organization's formal and informal structures. In addition, survivors who are already subject to 'survivors syndrome' find they have to work harder to cover staffing shortfalls, with the consequence that increased workloads feed the stress related to job insecurity, undermining the very efficiency goals that motivated the merger or acquisition. Job insecurity may make employees feel pressured into agreeing to put extra effort into their jobs to demonstrate organizational loyalty; but such working conditions are neither sustainable nor conducive to the achievement of corporate objectives.

It has been estimated that stress-related problems costs the United States economy approximately $200 billion a year, or the equivalent of the revenues of the 500 most profitable firms. Similar estimates for the United Kingdom show stress-related illnesses absorbing almost 10 per cent of GDP.

- Financial sector restructuring around the world has led to a high rate of call centre growth. Research by *Deloitte & Touché* has found, for instance, that Australia has 1,400 call centres and help-desks employing 50,000 people and annual sales of $2 billion. Staff turnover averages 18 per cent a year mainly due to stress, as confirmed by the fact that 80 per cent of workers are requesting stress management training assistance. The annual cost to the industry from the high turnover has been estimated at around $100 million.

M&As generate high levels of staff anxiety and stress as their working world is turned upside down, their jobs come under threat and their career prospects and professional competence are called into question. Collective defensive mechanisms, especially in hostile takeovers involving previously keen competitors, may lead to a 'victor-vanquished' syndrome inducing behavior inimical to the smooth implementation of changes for successful integration. Employees from each company are aware that there are many duplicated positions to be eliminated and the struggle to survive will be fierce. Trade unions may themselves be at loggerheads as the merger may involve companies recognizing different negotiating partners. Not surprisingly, it is much easier for managers to convince shareholders about the merits of proposed mergers than it is to persuade their own staff (Geneva, 2001).

CHAPTER 3

ANALYSIS METHODOLOGY

3.1 COMMON SIZE

Common size analysis (also called vertical analysis) expresses each line item on a single years financial statement as a percent of one line item, which is referred to as a base amount. The base amount for the balance sheet is usually total assets (which is the same number as total liabilities plus stockholders' equity), and for the income statement is usually net sales or revenues. By comparing two or more years of common size statements, changes in the mixture of assets, liabilities and equity become evident. On the income statement, changes in the mix of revenues and in the spending for different types of expenses can be identified.

A company financial statement that displays all items as percentages of a common base figure. This type of financial statement allows for easy analysis between companies or between time periods of a company. In this study we analyzed banks balance sheets and income statements.

The values on the common size statement are expressed as percentages of a statement component such as revenue. While most firms don't report their statements in common stock, it is beneficial to compute if you want to analyze two or more companies of differing size against each other.

Formatting financial statements in this way reduces the bias that can occur when analyzing companies of differing sizes. It also allows for the analysis of a company over various time periods, revealing, for example, what percentage of sales is cost of goods sold and how that value has changed over time.

3.2 ANNUAL PERCENTAGE CHANGE ANALYSIS

The common base analysis representing of accounting information over multiple years as percentages of amounts in an initial year. In general the base year is the first year. But in this study the base year is the previous year of the subject year. We divide each balance sheet and income statement items to previous year of the same item. Beside of the common size analysis, in the common base analysis focus of the items trends over the years. If we choose one year as a base year, this is a common base analysis, but if we divide each item to the previous year with the same item we call this type of analysis as annual percentage change analysis. This analysis allows us to analysis the changes each items over years.

3.3 RATIO ANALYSES

A tool used by individuals to conduct quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy the judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios include the price-earnings ratio, earnings per share, asset turnover and working capital. In this study the ratio analyses divide to three parts: profitability, asset quality and capital adequacy ratio analyses.

3.3.1 PROFITABILITY RATIO

A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.

3.3.1.1 RETURN ON ASSET (ROA)

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as 'return on investment'

$$ROA = \frac{\text{NET INCOME}}{\text{TOTAL ASSET}}$$

NOTE: Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing.

3.3.1.2 RETURN ON EQUITY (ROE)

A measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.

Calculated as:

$$ROE = \frac{\text{NET INCOME}}{\text{SHAREHOLDER'S EQUITY}}$$

Also known as 'return on net worth (RONW)'

3.3.1.3 NET INTEREST MARGIN

A performance metric that examines how successful a firm's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make optimal decisions, because interest expenses were greater than the amount of returns generated by investments.

Calculated as:

$$\text{NET INTEREST MARGIN} = \frac{\text{(INVESTMENT RETURNS} - \text{INTEREST EXPENSE)}}{\text{AVERAGE EARNING ASSETS}}$$

3.3.1.4 NET NONINTEREST MARGIN

Calculated as:

$$\text{NET NONINTEREST MARGIN} = \frac{\text{NONINTEREST INCOME} - \text{NONINTEREST EXPENSE}}{\text{TOTAL ASSET}}$$

3.3.1.5 NET BANK OPERATING MARGIN

Calculated as:

$$\text{NET BANK OPERATING MARGIN} = \frac{\text{NET INTEREST INCOME} - \text{NET OTHER INCOME}}{\text{TOTAL ASSET}}$$

3.3.2 CAPITAL ADEQUACY

Calculated as:

$$\text{FINANCIAL INDEPENDENCY RATIO} = \frac{\text{SHAREHOLDERS FUNDS}}{\text{TOTAL ASSET}}$$

3.3.3 ASSET QUALİTY

Calculated as:

$$\text{RATIO} = \frac{\text{LOANS}}{\text{TOTAL ASSET}}$$

$$\text{RATIO} = \frac{\text{LOANS}}{\text{DEPOSIT}}$$

CHAPTER 4

4.1 MERGER and ACQUISITION in TRNC

In this project I will try to explain the merger of Akdeniz Garanti Bank and Vakıflar Bank. Beyond this there is one more example to the merger in Northern Cyprus and this is Hamza Bank and Şeker Bank. These banks Hamza Bank (private) and Şeker Bank (Turkish Anonym Limited) at 5 April 2002 banks decided to merger individually and than 12 April 2002 merger has been taken place. The reason of this merger was accordingly through to decision of Northern Cyprus government minister's council. Central Bank board of directors approved this merger with a decision 29 Mart 2002 date and number 472.

The merger of a bank with one or more banks or transfers at all its liabilities; claims and deposits to another bank shall require the permission of the Central Bank. If, within three months after the date of permission, the competent bodies of the concerned banks fail to adopt the necessary decisions and to start the merger or acquisition process, then the permission granted shall become null and void. The principles and procedures concerning mergers and acquisitions shall be set out in a notification issued by the Central Bank.

Disregarding whether there exists any contrary provisions in other laws or not, within the scope of a notification to be issued by the Central Bank, for a newly established bank or a bank which has newly been taken over, the following exceptions shall be offered:

On the condition that the permission is granted by the Central Bank and acquisition and merger operations have commenced within 3 months from the date of the permission, for a bank to merge with another bank or than one bank or by ending its existence as a corporate body, if the balance sheet values of this bank, either totally or partially, are transferred to a bank or a number of banks or if the shares of this bank , either totally or partially, belongs to the Savings Deposit Insurance Fund and if the balance sheet values are taken over by the Saving Deposit Insurance Fund, the profits earned, as a result of acquisition or merger, shall be exempted from the corporate tax. In case that merger or acquisition has not realized as conformable to the permission received, for the taxes not settled in time, a tax loss Shall be considered as being created.

For the merger and acquisitions that will take place, the amount of deductible loss, appeared in the balance sheet prior to merger or acquisition, may be cited as expenditure, subject to the condition of not exceeding 5 years from the corporate income of the institution that has been taken over or merged.

During the acquisitions and mergers to be carried out, all the procedures pertaining to the documents and agreements arranged, to the record and registration of the estate and real estate property of the institution annulled or on the name of the institution to which it will join, and the renewal, prolongation, exchange, handing over or abolishment of the letters of guarantee, agreements expound, securities and other paper on behalf of the institution which merged to or taken over from, arranged before the date of acquisition and merger by the by the institution annulled or that have been received in favors, shall be exempted from all kinds of taxes, duties, charges, (including the vehicle purchase tax) and the money received in favors shall be exempted from the Banking and Insurance services tax.

With the purpose of helping the merger to be successful, the Central Bank is empowered to decrease or postpone the additional reserve requirements of the banks merged, to the periods that it will determine.

In case that the banks whose capital shares are either totally or partially belong to the Fund, are subject to acquisition, merger or sell out completely or partially, the assets and/or liabilities of the bank in question shall be carried out according to the principles and procedures set out by the Central Bank

If a bank operating in the Turkish Republic of Northern Cyprus wishes to terminate and liquidate its operations, it must publicize its intention it at least two newspapers printed and distributed across the Turkish Republic of Northern Cyprus, notify the depositors and creditors and the individuals and establishments that can be considered a depositor or creditor, refund all the deposits its holding, in cash or in kind, the balances of the custody and current accounts and its other liabilities within two months, regardless of their maturity, and transfer all deposits, custody accounts and claims, in cash or in kind, not claimed by the beneficiaries within that period to the Central Bank .

The Central Bank shall keep the assets so transferred for a period of ten years as from the beginning of the year that follows and publicize them at the beginning of each year in accordance with the required procedure. The examples of this in Northern Cyprus we can give the names of Ticaret Bank, Everest Bank, Hür Bank, Endüstri Bank, Euro Bank, Er Bank, Yasa Bank, Yatırım Bank, Finance Bank, Inter Bank, Tunca Bank, Kredi Bank.

TABLE 1

BALANCE SHEET PART 1

ANNUAL REPORT and ACCOUNTS in VAKIFLAR BANK

ASSETS	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
I- CASH BALANCES	**15.054.927**	**693.948**	**973.055**	**1.248.996**	**2.572.015**	**3.041.386**	**3.224.073**
A. Cash - Turkish Lira balances		472.225	447.894	785.705	514.586	2.012.121	1.832.820
B. Cash - Foreign Currency balances		221.722	380.161	463.291	527.379	1.029.265	1.391.253
C. Others		0	145.000	0	1.530.050	0	0
II- BANKS	**7.187.841**	**36.061.484**	**105.828.197**	**58.536.062**	**58.239.320**	**107.026.078**	**104.966.932**
A. TRNC Central Bank		15.064.676	34.651.361	44.371.025	43.160.020	52.102.846	56.353.285
B. Others Banks		20.996.808	71.176.836	14.165.037	15.076.300	54.923.232	48.613.647
1) Domestic Banks		43.853	52.226	36.090	26.399	393.122	242.796
2) Foreign Banks		20.952.955	71.124.610	14.128.947	15.049.901	54.530.110	48.370.851
III- OTHER FINANCIAL INSTITUTION		**0**	**0**	**0**	**0**	**0**	**0**
IV - INTERBANK FUNDS SOLD		**0**	**0**	**0**	**0**	**0**	**0**
V- SECURITIES PORTFOLIO[Net]	**801.899**	**822.122**	**354.452**	**71.310.326**	**87.163.460**	**62.492.965**	**52.916.689**
A. Government Bonds and treasury bills		822.122	354.452	460.788	575.985	2.716.067	0
B. Others Bonds		0	0	0	0	0	0
C. Equity shares		0	0	0	0	0	0
D. Other marketable securities		0	0	70.849.538	86.587.475	59.776.898	52.916.689
VI- LOANS	**24.934.087**	**27.905.364**	**14.095.135**	**20.841.803**	**75.707.061**	**217.251.835**	**310.379.150**
A. Short-term		27.905.364	11.468.333	10.431.767	26.972.868	68.559.624	87.473.669
B. Medium and long-term		0	2.626.801	10.410.036	48.734.193	148.692.211	222.905.481
VII- LOANS IN ARREARS [Net]		**4.816.773**	**3.024.398**	**1.839**	**0**	**4.779.252**	**33.225.633**
A. Loans under follow-up [Net]		1.380.225	702.700	0	0	1.932.574	4.814.875
1) Gross receivable balances		1.452.868	879.441	1.676.437	1.732.709	12.109.181	7.894.394
2) Specific provision (-)		72.643	176.742	1.676.437	1.732.709	10.176.607	3.079.519
B. Doubtful debts [Net]		3.436.549	0	0	0	2.846.678	5.577.228
1) Gross receivable balances		3.617.984	0	3.849	59.269	4.704.393	9.041.113
2) Specific provision (-)		181.435	0	3.849	59.269	1.857.714	3.463.885
C. Bad debts [Net]		0	2.321.698	1.839	0	0	22.833.530
1) Gross receivable balances		0	6.081.410	5.007.622	7.598.668	8.720.213	53.374.702
2) Specific provision (-)		0	3.759.712	5.005.783	7.598.668	8.720.213	30.541.172
VIII- PREPAYMENTS AND ACCRUED INCOME		**1.031.097**	**7.501.128**	**17.379.440**	**9.113.570**	**6.468.604**	**3.823.078**
A. Loans		312.605	249.836	105.901	15.549	829.715	217.735
B. Securities portfolio		39.853	66.484	17.273.538	9.098.021	4.566.553	3.605.343
C. Other		678.639	7.184.809	0	0	1.072.337	0
IX- FINANCIAL LEASING RECEIVABLES [Net]		**0**	**0**	**0**	**0**	**0**	**0**
A. Financial leasing receivables		0	0	0	0	0	0
B. Unearned income (-)		0	0	0	0	0	0
X- RESERVE DEPOSITS AT THE CENTRAL BANK		**9.693.441**	**17.776.289**	**19.559.486**	**22.103.177**	**39.471.434**	**45.129.417**
XI- SUNDRY RECEIVABLES		**623.091**	**737.726**	**89.366**	**158.358**	**262.438**	**1.289.658**
XII- PARTICIPATIONS [NET]		**53.862**	**67.661**	**67.661**	**82.439**	**397.837**	**447.581**
A. Financial participations		53.862	67.661	67.661	82.439	205.026	225.170
B. Other participations		0	0	0	0	192.811	222.411
XIII- SUBSIDIARIES [Net]	**589.643**	**96.553**	**21.420**	**21.420**	**21.420**	**21.420**	**21.420**
A. Financial participations		96.553	21.420	21.420	21.420	21.420	21.420
B. Other participations		0	0	0	0	0	0
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]		**0**	**0**	**0**	**0**	**0**	**0**
A. Equity shares		0	0	0	0	0	0
B. Other pledged securities		0	0	0	0	0	0
XV. FIXED ASSETS [Net]		**1.287.919**	**1.412.380**	**1.495.953**	**1.609.115**	**3.275.325**	**3.263.508**
A. Book value		1.939.210	2.258.244	2.440.976	2.731.896	6.393.395	6.524.495
B. Accumulated depreciation (-)		651.291	845.864	945.023	1.122.781	3.118.070	3.260.987
XVI- OTHER ASSETS		**14.699.923**	**2.057.162**	**3.318.812**	**6.238.600**	**11.551.599**	**1.533.379**
TOTAL ASSETS	**48.568.397**	**97.785.576**	**153.849.002**	**193.871.164**	**263.008.535**	**456.040.173**	**560.220.518**

LIABILITIES **TABLE 1**

VAKIFLAR BANK BALANCE SHEET (CONTINUOUS)

I- DEPOSITS	**46.475.912**	**68.569.931**	**133.751.255**	**163.781.769**	**224.199.194**	**391.905.309**	**481.064.53**
A. Savings deposits		12.929.400	32.333.556	47.278.234	55.295.598	204.311.132	223.650.31
B. Official deposits		15.266.168	24.372.272	41.138.164	61.841.026	150.412.016	223.973.56
C. Commercial deposits		2.580.819	3.753.987	4.515.343	7.020.163	16.899.529	17.039.14
D. Other institution deposits		1.656.208	200.277	297.836	411.400	1.639.514	1.545.76
E. Bank deposits		38.474	1.299.776	2.538.842	2.292.569	18.643.118	14.855.74
F. Foreign currency deposit		36.097.861	71.791.387	68.013.350	97.338.438	0	
G. Gold reserve accounts		0	0	0	0	0	
II- INTERBANK FUNDS BORROWED		**0**	**0**	**0**	**0**	**0**	
III- FUNDS BORROWED		**1.164.559**	**1.445.676**	**679.726**	**556.849**	**479.812**	**1.76**
A. TRNC Central Bank funds borrowed		1.164.559	1.445.676	679.726	556.849	479.812	1.76
B. Other funds borrowed		0	0	0	0	0	
1) Domestic banks and other institution		0	0	0	0	0	
2) Foreign bank,institutions and funds		0	0	0	0	0	
3) Capital loans		0	0	0	0	0	
IV- FUNDS		**0**	**0**	**5.243.788**	**3.730.651**	**12.594.737**	**19.315.3**
V- SECURITIES ISSUED [Net]		**0**	**0**	**0**	**0**	**0**	
A. Bonds		0	0	0	0	0	
B. Asset backed securities		0	0	0	0	0	
C. Debentures		0	0	0	0	0	
VI- INTEREST & OTHER EXPENSE ACCRUALS		**5.052.686**	**8.160.662**	**9.218.375**	**4.882.408**	**12.261.802**	**10.594.4**
A. Deposits		5.052.686	8.152.231	7.660.360	4.801.136	10.586.787	10.424.0
B. Borrowed funds		0	0	8.161	3.999	170.216	170.3
C. Other		0	8.432	1.549.854	77.274	1.504.799	
VII- FINANCIAL LEASING PAYABLES [Net]		**0**	**0**	**0**	**0**	**0**	
A. Financial leasing payables		0	0	0	0	0	
B. Deffered financial leasing expense (-)		0	0	0	0	0	
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.	**101.303**	**328.715**	**500.110**	**546.800**	**226.968**	**383.457**	**450.6**
IX- IMPORT TRANSFER ORDERS		**528.809**	**317.854**	**106.554**	**86.422**	**166.667**	**473.1**
X- MISCELLANEOUS PAYABLES		**44.018**	**173.448**	**46.397**	**258.763**	**891.965**	**1.925.5**
XI- PROVISIONS		**1.239.631**	**2.080.211**	**4.374.572**	**7.096.610**	**6.118.210**	**7.911.3**
A. Retirement pay compensation		1.073.117	1.724.089	2.509.148	3.615.444	4.445.252	6.211.1
B. General provision for loan losses		0	65.777	104.034	379.230	1.120.641	1.695.0
C. Corporation and Income tax provision		157.099	279.845	1.512.865	3.097.024	547.314	
D. Other provisions		9.416	10.500	248.525	4.912	5.003	5.1
XII- OTHER LIABILITIES		**16.852.862**	**2.804.776**	**428.315**	**1.269.121**	**6.736.870**	**9.616.0**
XIII- SHAREHOLDERS' FUNDS	**1.691.817**	**3.586.326**	**4.052.511**	**4.504.511**	**8.949.511**	**19.524.580**	**26.951.4**
A. Share capital paid-up		1.500.000	3.700.000	4.200.000	8.000.000	17.000.000	17.000.0
1) Nominal share capital		1.500.000	3.700.000	4.200.000	8.000.000	17.000.000	17.000.0
2) Unpaid share capitaL		0	0	0	0	0	
B. Legal reserves		71.675	113.547	170.547	664.547	1.839.615	2.219.5
1) Legal reserves		71.675	113.547	170.547	664.547	1.839.615	2.219.5
2) Share premiums		0	0	0	0	0	
3) Other legal reserves		0	0	0	0	0	
C. General reserves		114.311	115.845	133.965	284.965	684.965	5.281.7
D. Statutory revaluation fund		1.900.340	123.119	0	0	0	2.450.1
E. Revaluation differences		0	0	0	0	0	
F. Loss		0	0	0	0	0	
1) Current period loss		0	0	0	0	0	
2) Previous period losses		0	0	0	0	0	
XIV- PROFIT		**419.039**	**562.498**	**4.940.359**	**11.752.036**	**4.976.764**	**1.916.2**
A. Current period profit		418.714	562.031	4.939.860	11.750.678	3.799.796	1.916.2
B. Previous period profit		325	467	498	1.358	1.176.968	
TOTAL LIABILITIES	**48.269.032**	**97.785.576**	**153.849.002**	**193.871.164**	**263.008.535**	**456.040.173**	**560.220.5**
COMMITMENTS AND CONTINGENT LIABILITIES							
I- GUARANTEES AND ACCEPTANCES	1.753.865	2.445.870	3.070.348	2.852.536	4.646.435	39.402.095	80.541.
II- COMMITMENTS	8.885.023	11.089.443	17.284.176	13.627.648	14.129.039	21.800	33.958.
III- FOREIGN EXCHANGE AND INTEREST RATES OPERATIONS		0	0	0	0	0	
TOTAL	**10.638.888**	**13.535.313**	**20.354.524**	**16.480.183**	**18.775.473**	**39.423.895**	**114.499.**

TABLE 2

VAKIFLAR BANK INCOME STATEMENT

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
I- INTEREST INCOME	**10.811.959,00**	**14.909.446,00**	**31.251.476,00**	**46.830.031,00**	**49.228.050,00**	**56.355.554,00**	**68.861.862**
A. Interest income from loans		7.828.790	10.012.895	9.768.844	16.521.644	27.217.390	45.666.022
1) Interest income from Turkish Lira loans		5.831.619	5.725.225	4.309.406	8.594.763	14.952.063	33.550.731
a. - Short-term		5.831.619	5.725.225	3.819.143	6.448.740	6.700.076	19.912.659
b. - Medium and long-term		0	0	490.263	2.146.023	8.251.987	13.638.072
2) Interest income from foreign currency loans		1.892.552	4.106.071	1.266.872	3.542.948	11.431.165	11.358.629
a. - Short-term		1.892.552	4.106.071	1.146.810	2.642.363	2.274.531	5.431.497
b. - Medium and long-term		0	0	120.062	900.585	9.156.634	5.927.132
3) Interest income from loans in arears		104.618	181.600	4.192.566	4.383.934	834.162	756.662
B. Interest income from reserve deposits at the Central Bank		634.772	929.844	1.339.238	1.565.710	2.754.473	2.868.908
C. Interest income received from banks		6.432.823	20.200.310	5.148.245	7.079.056	8.432.916	10.259.210
1) TRNC Central Bank		1.459.262	2.917.285	4.682.613	5.716.605	4.058.868	4.611.845
2) Domestic banks		6.681	2.654	2.343	867	436.375	174.708
3) Foreign banks		4.966.880	17.280.370	463.289	1.361.584	3.937.673	5.472.657
D. Interest income from interbank operations		0	0	0	0	0	0
E. Interest income from securities portfolio		11.835	108.427	30.570.370	24.061.578	17.950.775	10.067.722
1) TRNC Development Bank securities						179.345	505.440
2) Other securities	113.132	11.835	108.427	30.570.370	24.061.578	17.771.430	9.562.282
F. Other interest income		1.230	0	3.334	61	0	0
II- INTEREST EXPENSES	**8.485.747**	**14.749.541**	**24.424.728**	**31.285.924**	**23.961.529**	**38.034.336**	**38.944.798**
A. Interest paid for deposits		14.042.959	23.901.789	30.518.720	23.241.653	32.558.253	31.109.816
1) Saving deposits		5.111.667	10.910.452	15.063.346	11.885.950	19.244.951	16.235.167
2) Official deposits		6.111.500	8.514.794	12.026.727	8.051.775	12.322.897	14.028.152
3) Commercial deposits		305.568	324.769	187.023	212.497	511.465	452.011
4) Other Institution deposits		327.064	1.129.970	77.690	59.182	168.028	141.556
5) Bank deposits		6.901	157.660	584.284	375.518	310.912	252.930
6) Foreign currency deposits		2.180.261	2.864.144	2.579.650	2.656.730	0	0
7) Gold reserve accounts		0	0	0	0	0	0
B. Interest paid for interbank operations		0	0	0	0	0	0
C. Interest paid for funds borrowed		706.582	522.938	767.204	719.875	333.736	502.526
1) To TRNC Central Bank		706.582	522.938	450.700	132.931	49.638	24.347
2) To Domestic banks		0	0	0	0	0	0
3) To Foreign banks		0	0	0	0	0	0
4) Other institutions		0	0	316.503	586.945	284.098	478.179
D. Interest paid for securities issued		0	0	0	0	15.267	0
E. Other interest expenses		0	0	0	0	0	0
III- NET INTEREST INCOME [I-II]		**159.908**	**6.826.748**	**15.544.106**	**25.266.521**	**18.321.218**	**29.917.064**
IV- OTHER NON-INTEREST OPERATING INCOME		**6.294.636**	**5.597.328**	**2.696.971**	**6.041.646**	**15.595.323**	**18.180.216**
A. Fees and commissions received		808.155	1.135.659	1.453.484	1.505.519	2.719.790	4.525.626
1) From cash loans		780.214	1.099.827	144.333	352.426	771.080	1.630.263
2) From non-cash loans		27.941	35.833	23.515	41.987	1.108.618	2.045.418
3) Other		0	0	1.285.636	1.111.106	840.092	849.945
B. Income on capital market operations		0	0	0	0	0	0
C. Income on foreign exchange operations		5.387.015	4.258.946	279.203	1.905.945	5.086.241	9.513.841
D. Dividends received from subsidiaries and participations		0	0	0	0	0	0
E. Extraordinary Income		0	0	118.846	27.948	121	73.288
F. Other non-interest income		99.466	202.723	845.438	2.602.234	7.789.171	4.067.461
V- OTHER NON INTEREST OPERATING EXPENSES		**4.422.856**	**10.730.246**	**11.179.875**	**15.645.142**	**28.807.790**	**45.209.561**
A. Fees and commissions paid		90.493	157.615	67.593	89.309	177.972	223.347
1) On cash loans		0	0	0	0	0	15.798
2) On non-cash loans		0	0	0	0	0	0
3) Other		90.493	157.615	67.593	89.309	177.972	207.549
B. Loss on capital market operations		0	0	0	0	0	0
C. Loss on foreign exchange operations		1.217.744	2.319.611	561.915	90.282	3.164.130	6.024.298
D. Personnel expenses	1.677.304	1.691.364	2.429.356	3.894.219	5.764.181	12.810.849	11.839.158
E. Retirement pay compensation	382.102	283.518	666.715	834.771	1.129.622	890.247	1.959.066
F. Rental expenses		72.728	104.943	129.340	120.884	175.448	180.913
G. Depreciation	49.501	135.850	152.096	160.195	181.208	358.999	362.884
H. Taxes and duties		27.186	18.903	100.308	129.818	235.373	134.399
I. Extraordinary expenses		0	0	0	0	374.226	0
J. Provision for loans in arrears		254.079	3.629.787	3.412.346	5.284.235	3.297.722	16.096.067
K. Other provisions		9.416	75.777	48.197	275.196	741.411	599.943
L. Other non-interest expenses		640.478	1.175.443	1.970.991	2.580.406	6.581.413	7.789.486
NET OTHER INCOME [IV-V]		**1.871.781**	**-5.132.917**	**-8.482.904**	**-9.603.496**	**-13.212.467**	-27.029.345
OPERATING PROFIT [III+VI]	307.361	**2.031.689**	**1.693.831**	**7.061.202**	**15.663.024**	**5.108.751**	2.887.719
Statutory revaluation difference	27.937	1.214.071	502.231	0	0	0	0
PROFIT BEFORE TAXATION	330.437	**817.618**	**1.191.600**	**7.061.203**	**15.663.024**		
TAXATION	218.228	**398.904**	**629.569**	**2.121.342**	**3.912.346**	**1.308.956**	**971.483**
NET PROFIT	**84.272**	**418.714**	**562.031**	**4.939.860**	**11.750.678**	**3.799.796**	**1.916.236**

TABLE 3

ANNUAL REPORT and ACCOUNTS İN AKDENİZ G. BANK ASSETS

	BALANCE SHEET				
	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
I- CASH BALANCES	**907.042**	**1.419.543**	**2.543.292**	**2.564.537**	1.653.290
A. Cash - Turkish Lira balances	785.112	1.015.559	777.548	1.212.847	106.160
B. Cash - Foreign Currency balances	121.930	403.984	383.676	407.746	143.952
C. Others	0	0	1.382.068	943.944	1.403.178
II- BANKS	**3.181.535**	**12.371.639**	**35.453.885**	**54.231.902**	**25.702.625**
A. TRNC Central Bank	2.628.824	6.436.934	21.641.783	16.246.723	19.843.435
B. Others Banks	0	0	13.812.102	37.985.179	0
1) Domestic Banks	31.175	4.949	23.057	4.228.444	470.917
2) Foreign Banks	521.536	5.929.756	13.789.045	33.756.735	5.388.273
III- OTHER FINANCIAL INSTITUTION	**0**	**0**	**0**	**0**	0
IV - INTERBANK FUNDS SOLD	**0**	**0**	**0**	**0**	0
V- SECURITIES PORTFOLIO[Net]	**2.695.161**	**3.651.409**	**16.112.775**	**18.557.277**	**34.955.016**
A. Government Bonds and treasury bills			0	37.346	46.682
B. Others Bonds			0	0	34.908.334
C. Equity shares			0	0	0
D. Other marketable securities			16.112.775	18.519.931	0
VI- LOANS	**15.649.658**	**45.509.070**	**65.712.939**	**57.221.351**	**55.354.793**
A. Short-term			65.712.939	49.973.310	47.089.928
B. Medium and long-term			0	7.248.041	8.264.865
VII- LOANS IN ARREARS [Net]			**5.666.711**	**8.729.158**	**0**
A. Loans under follow-up [Net]			109.770	8.729.158	0
1) Gross receivable balances			199.580	11.411.447	9.179.715
2) Specific provision (-)			-89.810	-2.682.289	-9.179.715
B. Doubtful debts [Net]			1.081.844	0	0
1) Gross receivable balances			2.073.844	3.160.362	791.733
2) Specific provision (-)			-992.000	-3.160.362	-791.733
C. Bad debts [Net]			4.475.097	0	0
1) Gross receivable balances			9.593.287	2.489.241	1.539.324
2) Specific provision (-)			-5.118.190	-2.489.241	-1.539.324
VIII- PREPAYMENTS AND ACCRUED INCOME	**4.527.075**	**8.858.226**	**13.377.071**	**4.797.051**	**3.949.599**
A. Loans			13.377.071	1.640.362	14.177
B. Securities portfolio			0	2.686.710	3.934.287
C. Other			0	469.979	1.135
IX- FINANCIAL LEASING RECEIVABLES [Net]			**0**	**0**	**0**
A. Financial leasing receivables			0	0	0
B. Unearned income (-)			0	0	0
X- RESERVE DEPOSITS AT THE CENTRAL BANK	**3.455.856**	**8.290.906**	**16.740.551**	**19.543.424**	**17.501.915**
XI- SUNDRY RECEIVABLES	**160.722**	**1.386.922**	**789.720**	**290.752**	0
XII- PARTICIPATIONS [NET]	**13.507**	**28.755**	**91.640**	**108.556**	**165.399**
A. Financial participations			91.640	65.745	120
B. Other participations			0	42.811	165.279
XIII- SUBSIDIARIES [Net]			**0**	**0**	**0**
A. Financial participations			0	0	0
B. Other participations			0	0	0
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]			**0**	**0**	**0**
A. Equity shares			0	0	0
B. Other pledged securities			0	0	0
XV. FIXED ASSETS [Net]	**516.604**	**1.350.894**	**1.808.398**	**1.686.369**	**1.567.274**
A. Book value	1.146.270	2.814.936	3.750.503	3.809.157	3.851.453
B. Accumulated depreciation (-)	-629.666	-1.464.042	-1.942.105	-2.122.788	-2.284.179
XVI- OTHER ASSETS	**0**	**0**	**0**	**318.425**	**713.788**
TOTAL ASSETS	**31.107.160**	**82.867.364**	**158.296.982**	**168.048.802**	**141.563.699**

LIABILITIES **TABLE 3** **AKDENİZ G.BANK BALANCE SHEET (CONTINUOUS)**

I- DEPOSITS	**27.922.405**	**75.156.841**	**147.692.350**	**173.800.479**	**172.641.766**
A. Savings deposits	16.816.356	44.692.634	24.017.056	69.769.552	113.699.418
B. Official deposits	10.292.827	15.041.410	25.929.929	35.610.032	53.444.944
C. Commercial deposits	244.340	4.388.727	3.088.498	159.621	389.982
D. Other institution deposits	0	396.252	4.241.540	6.326.936	5.107.313
E. Bank deposits	568.882	10.637.818	21.895.260	0	109
F. Foreign currency deposit	0	0	68.520.067	61.934.338	0
G. Gold reserve accounts	0	0	0	0	0
II- INTERBANK FUNDS BORROWED	**0**	**0**	**0**	**0**	**0**
III- FUNDS BORROWED	**1.089.170**	**1.825.236**	**1.870.825**	**82.772**	**6.027**
A. TRNC Central Bank funds borrowed	1.089.170	1.825.236	1.870.825	82.772	6.027
B. Other funds borrowed			0	0	0
1) Domestic banks and other institution			0	0	0
2) Foreign bank,institutions and funds			0	0	0
3) Capital loans			0	0	0
IV- FUNDS			**0**	**6.516.950**	**5.125.845**
V- SECURITIES ISSUED [Net]			**0**	**0**	**0**
A. Bonds			0	0	0
B. Asset backed securities			0	0	0
C. Debentures			0	0	0
VI- INTEREST & OTHER EXPENSE ACCRUALS	**672.515**	**2.771.089**	**4.685.530**	**5.672.050**	**5.199.987**
A. Deposits	672.515	2.771.089	3.786.342	4.871.235	3.902.101
B. Borrowed funds	0	0	511.187	436.783	871.436
C. Other	0	0	388.001	364.032	426.450
VII- FINANCIAL LEASING PAYABLES [Net]			**0**	**0**	**0**
A. Financial leasing payables			0	0	0
B. Deffered financial leasing expense (-)			0	0	0
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.	**247.073**	**369.902**	**411.138**	**353.082**	**696.439**
IX- IMPORT TRANSFER ORDERS	**2.368**	**16.332**	**139.085**	**84**	**2.761**
X- MISCELLANEOUS PAYABLES	**434.833**	**1.159.539**	**767.896**	**1.528.510**	**1.286.185**
XI- PROVISIONS			**0**	**94.002**	**277.578**
A. Retirement pay compensation			0	0	0
B. General provision for loan losses			0	94.002	277.578
C. Corporation and income tax provision			0	0	0
D. Other provisions			0	0	0
XII- OTHER LIABILITIES			**0**	**0**	172.015
XIII- SHAREHOLDERS' FUNDS	**738.796**	**1.568.425**	**2.263.271**	**-19.999.127**	**-43.844.904**
A. Share capital paid-up	1.218.000	1.300.000	2.416.473	3.133.259	3.133.259
1) Nominal share capital			2.416.473	4.000.000	4.000.000
2) Unpaid share capital			0	-866.741	-866.741
B. Legal reserves	36.743	36.743	36.743	83.432	
1) Legal reserves			36.743	83.432	83.432
2) Share premiums			0	0	3.695
3) Other legal reserves			0	0	0
C. General reserves	3.418	3.418	3.418	3.418	3.418
D. Statutory revaluation fund	85.628	833.257	411.630	411.630	411.630
E. Revaluation differences			0	0	0
F. Loss			-604.993	-23.630.866	-47.480.338
1) Current period loss			0	-23.446.071	-23.849.472
2) Previous period losses	-662.900	-663.150	-604.993	-187.795	-23.630.866
XIV- PROFIT	**57.907**	**58.157**	**466.887**	**0**	**0**
A. Current period profit	-250	0	466.887	0	0
B. Previous period profit	58.157	58.157	0	0	0
TOTAL LIABILITIES	**31.107.160**	**82.867.364**	**158.296.982**	**168.048.802**	**141.563.699**

4.2.1 COMMON SIZE ANALYSIS

4.2.1.1 VAKIFLAR BANK COMMON SIZE ANALYSIS

ASSET:

CASH BALANCES: When we look figures of 2000-2006, we can see that the greatest percentage is in 2000. The other years almost are near to each other. When we think the differences of 2000 to the other years we can say that interests of 2000 was nearly 100%.

BANKS: Investment to the Central Bank was increased in 2002. One of the reasons was either the attractive interests of the Central Bank or not to take care the customer risk from credit demands of the bank and another thing, after the banks union investment to the Central Bank has been decreased.

SECURITIES PORTFOLIO: Here an increase was being in 2003. Because most of the deposits were accumulated there. Decreased has been take place in 2006.

LOANS: When we look the years much more decrease was happened in 2002. The falling reason was the ratios of the credit interest were high according to the other bank that is to say there wasn't much more demand. Increasing happened in 2005-2006 because the two banks were united.

RESERVE DEPOSITS AT THE CENTRAL BANK: Here increasing happened in 2002. Because the money they collected was much more according to the other years. The money we collected we have to invest %10 (ten percent) to the Central Bank. (Added Equivalent)

LIABILITIES:

DEPOSIT: The greatest increase happened in 2000. In short, here the deposit increased. Deposit is the money kept in the bank. This mean the bank didn't give credit to the customer. In 2001 the deposit fell, this means, the credit which was given to the foreign increased and low interest was given to the customers' deposits. They are some of the reasons why the credits of the banks ebbed.

FUNDS BORROWED: More credit was taken from the Central Bank in 2001. The reason this is, the bank has cash problem. In 2005 a little credit was taken from the Central Bank. In 2006 Vakıflar Bank hasn't take credit from Central Bank. In short, the position of the bank was good. The reason to be good was the union of the two banks.

INTEREST&OTHER EXPENSE ACCRUALS: The credits e take from the Central Bank called accruals. A little credit was taken from the Central Bank in 2004. In 2001-2002 the most credit was taken from the Central Bank. Then, if it is not as in 2001-2002, in 2005 a considerable credit was taken. In 2006 a little credit was taken from the Central Bank.

SHAREHOLDERS FUNDS: According to the other years, the credits were increased a lot in 2006. The reason, Vakıflar Bank admitted to the Akdeniz Garanti Bank. That is to say in this position; it is the sign that, its position and its business are good.

PROFIT: If we look generally, the most profit was taken in 2004. After the union in 2005-2006, the profit fell considerable.

TABLE 4

VAKIFLAR BANK COMMON SIZE BALANCE SHEET

	31.12.2000	31.12.2001	31.12.2002	03.12.2003	31.12.2004	31.12.2005	31.12.2006
ASSETS							
I- CASH BALANCES	**31,00%**	**0,71%**	**0,63%**	**0,64%**	**0,98%**	**0,67%**	**0,58%**
A. Cash - Turkish Lira balances		0,48%	0,29%	0,41%	0,20%	0,44%	0,33%
B. Cash - Foreign Currency balances		0,23%	0,25%	0,24%	0,20%	0,23%	0,25%
C. Others		0,00%	0,09%	0,00%	0,58%	0,00%	0,00%
II- BANKS	**14,80%**	**36,88%**	**68,79%**	**30,19%**	**22,14%**	**23,47%**	**18,74%**
A. TRNC Central Bank		15,41%	22,52%	22,89%	16,41%	11,43%	10,06%
B. Others Banks		21,47%	46,26%	7,31%	5,73%	12,04%	8,68%
1) Domestic Banks		0,04%	0,03%	0,02%	0,01%	0,09%	0,04%
2) Foreign Banks		21,43%	46,23%	7,29%	5,72%	11,96%	8,63%
III- OTHER FINANCIAL INSTITUTION		**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**
IV - INTERBANK FUNDS SOLD		**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**
V- SECURITIES PORTFOLIO[Net]	**1,65%**	**0,84%**	**0,23%**	**36,78%**	**33,14%**	**13,70%**	**9,45%**
A. Government Bonds and treasury bills		0,84%	0,23%	0,24%	0,22%	0,60%	0,00%
B. Others Bonds		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
C. Equity shares		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
D. Other marketable securities		0,00%	0,00%	36,54%	32,92%	13,11%	9,45%
VI- LOANS	**51,34%**	**28,54%**	**9,16%**	**10,75%**	**28,79%**	**47,64%**	**55,40%**
A. Short-term		28,54%	7,45%	5,38%	10,26%	15,03%	15,61%
B. Medium and long-term		0,00%	1,71%	5,37%	18,53%	32,61%	39,79%
VII- LOANS IN ARREARS [Net]		**4,93%**	**1,97%**	**0,00%**	**0,00%**	**1,05%**	**5,93%**
A. Loans under follow-up [Net]		1,41%	0,46%	0,00%	0,00%	0,42%	0,86%
1) Gross receivable balances		1,49%	0,57%	0,86%	0,66%	2,66%	1,41%
2) Specific provision (-)		0,07%	0,11%	0,86%	0,66%	2,23%	0,55%
B. Doubtful debts [Net]		3,51%	0,00%	0,00%	0,00%	0,62%	1,00%
1) Gross receivable balances		3,70%	0,00%	0,00%	0,02%	1,03%	1,61%
2) Specific provision (-)		0,19%	0,00%	0,00%	0,02%	0,41%	0,62%
C. Bad debts [Net]		0,00%	1,51%	0,00%	0,00%	0,00%	4,08%
1) Gross receivable balances		0,00%	3,95%	2,58%	2,89%	1,91%	9,53%
2) Specific provision (-)		0,00%	2,44%	2,58%	2,89%	1,91%	5,45%
VIII- PREPAYMENTS AND ACCRUED INCOME		**1,05%**	**4,88%**	**8,96%**	**3,47%**	**1,42%**	**0,68%**
A. Loans		0,32%	0,16%	0,05%	0,01%	0,18%	0,04%
B. Securities portfolio		0,04%	0,04%	8,91%	3,46%	1,00%	0,64%
C. Other		0,69%	4,67%	0,00%	0,00%	0,24%	0,00%
IX- FINANCIAL LEASING RECEIVABLES [Net]		**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**
A. Financial leasing receivables		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
B. Unearned Income (-)		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
X- RESERVE DEPOSITS AT THE CENTRAL BANK		**9,91%**	**11,55%**	**10,09%**	**8,40%**	**8,66%**	**8,06%**
XI- SUNDRY RECEIVABLES		**0,64%**	**0,48%**	**0,05%**	**0,06%**	**0,06%**	**0,23%**
XII- PARTICIPATIONS [NET]		**0,06%**	**0,04%**	**0,03%**	**0,03%**	**0,09%**	**0,08%**
A. Financial participations		0,06%	0,04%	0,03%	0,03%	0,04%	0,04%
B. Other participations		0,00%	0,00%	0,00%	0,00%	0,04%	0,04%
XIII- SUBSIDIARIES [Net]	**1,21%**	**0,10%**	**0,01%**	**0,01%**	**0,01%**	**0,00%**	**0,00%**
A. Financial participations		0,10%	0,01%	0,01%	0,01%	0,00%	0,00%
B. Other participations		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]		**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**
A. Equity shares		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
B. Other pledged securities		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
XV. FIXED ASSETS [Net]		**1,32%**	**0,92%**	**0,77%**	**0,61%**	**0,72%**	**0,58%**
A. Book value		1,98%	1,47%	1,26%	1,04%	1,40%	1,16%
B. Accumulated depreciation (-)		0,67%	0,55%	0,49%	0,43%	0,68%	0,58%
XVI- OTHER ASSETS		**15,03%**	**1,34%**	**1,71%**	**2,37%**	**2,53%**	**0,27%**
TOTAL ASSETS	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**

TABLE 4

VAKIFLAR BANK COMMON SIZE B/S (CONTINUOUS)	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
LIABILITIES							
I- DEPOSITS	96,29%	70,12%	86,94%	84,48%	85,24%	85,94%	85,87%
A. Savings deposits		13,22%	21,02%	24,39%	21,02%	44,80%	39,92%
B. Official deposits		15,61%	15,84%	21,22%	23,51%	32,98%	39,98%
C. Commercial deposits		2,64%	2,44%	2,33%	2,67%	3,71%	3,04%
D. Other institution deposits		1,69%	0,13%	0,15%	0,16%	0,36%	0,28%
E. Bank deposits		0,04%	0,84%	1,31%	0,87%	4,09%	2,65%
F. Foreign currency deposit		36,92%	46,66%	35,08%	37,01%	0,00%	0,00%
G. Gold reserve accounts		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
II- INTERBANK FUNDS BORROWED		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
III- FUNDS BORROWED		1,19%	0,94%	0,35%	0,21%	0,11%	0,00%
A. TRNC Central Bank funds borrowed		1,19%	0,94%	0,35%	0,21%	0,11%	0,00%
B. Other funds borrowed		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
1) Domestic banks and other institution		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
2) Foreign bank,institutions and funds		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
3) Capital loans		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
IV- FUNDS		0,00%	0,00%	2,70%	1,42%	2,76%	3,45%
V- SECURITIES ISSUED [Net]		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
A. Bonds		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
B. Asset backed securities		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
C. Debentures		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
VI- INTEREST & OTHER EXPENSE ACCRUALS		5,17%	5,30%	4,75%	1,86%	2,69%	1,89%
A. Deposits		5,17%	5,30%	3,95%	1,83%	2,32%	1,86%
B. Borrowed funds		0,00%	0,00%	0,00%	0,00%	0,04%	0,03%
C. Other		0,00%	0,01%	0,80%	0,03%	0,33%	0,00%
VII- FINANCIAL LEASING PAYABLES [Net]		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
A. Financial leasing payables		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
B. Deffered financial leasing expense (-)		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.	0,21%	0,34%	0,33%	0,28%	0,09%	0,08%	0,08%
IX- IMPORT TRANSFER ORDERS		0,54%	0,21%	0,05%	0,03%	0,04%	0,08%
X- MISCELLANEOUS PAYABLES		0,05%	0,11%	0,02%	0,10%	0,20%	0,34%
XI- PROVISIONS		1,27%	1,35%	2,26%	2,70%	1,34%	1,41%
A. Retirement pay compensation		1,10%	1,12%	1,29%	1,37%	0,97%	1,11%
B. General provision for loan losses		0,00%	0,04%	0,05%	0,14%	0,25%	0,30%
C. Corporation and income tax provision		0,16%	0,18%	0,78%	1,18%	0,12%	0,00%
D. Other provisions		0,01%	0,01%	0,13%	0,00%	0,00%	0,00%
XII- OTHER LIABILITIES		17,23%	1,82%	0,22%	0,48%	1,48%	1,72%
XIII- SHAREHOLDERS' FUNDS	3,50%	3,67%	2,63%	2,32%	3,40%	4,28%	4,81%
A. Share capital paid-up		1,53%	2,40%	2,17%	3,04%	3,73%	3,03%
1) Nominal share capital		1,53%	2,40%	2,17%	3,04%	3,73%	3,03%
2) Unpaid share capitaL		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
B. Legal reserves		0,07%	0,07%	0,09%	0,25%	0,40%	0,40%
1) Legal reserves		0,07%	0,07%	0,09%	0,25%	0,40%	0,40%
2) Share premiums		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
3) Other legal reserves		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
C. General reserves		0,12%	0,08%	0,07%	0,11%	0,15%	0,94%
D. Statutory revaluation fund		1,94%	0,08%	0,00%	0,00%	0,00%	0,44%
E. Revaluation differences		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
F. Loss		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
1) Current period loss		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
2) Previous period losses		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
XIV- PROFIT		0,43%	0,37%	2,55%	4,47%	1,09%	0,34%
A. Current period profit		0,43%	0,37%	2,55%	4,47%	0,83%	0,34%
B. Previous period profit		0,00%	0,00%	0,00%	0,00%	0,26%	0,00%
TOTAL LIABILITIES	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

4.2.1.2 AKDENİZ GARANTİ BANK COMMON SIZE ANALYSIS

ASSET:

CASH BALANCES: When we look here the cash balances increased much more in 2000. After 2000 fall happened entirely, but while the fall was happening, there wasn't much difference balances was it gave much more credit to the foreign.

BANKS: Much more investment happened at the Central Bank in 2004. One of the reasons of this can be the ratios of the attractive interest and the united of the two banks. Whereas the most investment for the foreign banks happened in 2003. If we take care the other years, the investment for the foreign banks was very little.

SECURITIES PORTFOLIO: Here the opposite of Vakıflar Bank the investment increased in 2004. The reason was, the most deposit was there and the united of the two banks. Here there wasn't investment of equity shares like Vakıflar bank.

LOANS: On the contrary of Vakıflar Bank in the credits the year of 2002, was the year which was given much more credit for Akdeniz Garanti Bank it gave many credits and the deposit fell as well. However, the falling year was 2003 because the ratios of the credit interest were high. In short, fall of the demand.

RESERVE DEPOSIT AT THE CENTRAL BANK: Increasing happened in 2004. That is to say, the money they collected was much more according to the other years. 10% of the money we collected (Added Equivalent), we have to invest to the Central Bank .The lowest year was 2001.

LIABILITIES:

DEPOSIT: Here the year of 2000 was the lowest year of the deposit of Akdeniz Garanti Bank. One of the falling reasons was the increasing of the credits which were given to the customer and given low interest to the customers' deposits. In 2004 the deposits were increased excessively. So running the money and given credit to the customer may caused it to go bankrupt.

FUNDS BORROWED: Here more credit was taken from the Central Bank in 2000 according to the other years. The bank had cash problem. Credit wasn't taken from the Central Bank in 2004.

INTEREST&OTHER EXPENSE ACCRUALS: Here increase was made in 2005; in short credit was taken from the Central Bank in 2005. Because union of the two banks.

SHAREHOLDERS' FUNDS: Its shareholder fell after 2003. Its fall shows that the businesses didn't go well. That is to say Akdeniz Garanti Bank approaches to the bankrupt gradually after 2003

PROFIT: If we look generally, it made profit in 2002. There is no any profit in other years.

TABLE 5

AKDENİZ GARANTİ BANK COMMON SIZE B/S

ASSET	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
I- CASH BALANCES	2,92%	1,71%	1,61%	1,53%	1,17%
A. Cash - Turkish Lira balances	2,52%	1,23%	0,49%	0,72%	0,07%
B. Cash - Foreign Currency balances	0,39%	0,49%	0,24%	0,24%	0,10%
C. Others	0,00%	0,00%	0,87%	0,56%	0,99%
II- BANKS	10,23%	14,93%	22,40%	32,27%	18,16%
A. TRNC Central Bank	8,45%	7,77%	13,67%	9,67%	14,02%
B. Others Banks	0,00%	0,00%	8,73%	22,60%	0,00%
1) Domestic Banks	0,10%	7,16%	0,01%	2,52%	0,33%
2) Foreign Banks	1,68%	0,00%	8,71%	20,09%	3,81%
III- OTHER FINANCIAL INSTITUTION	0,00%	0,00%	0,00%	0,00%	0,00%
IV - INTERBANK FUNDS SOLD	0,00%	4,41%	0,00%	0,00%	0,00%
V- SECURITIES PORTFOLIO[Net]	8,66%		10,18%	11,04%	24,69%
A. Government Bonds and treasury bills			0,00%	0,02%	0,03%
B. Others Bonds			0,00%	0,00%	24,66%
C. Equity shares			0,00%	0,00%	0,00%
D. Other marketable securities			10,18%	11,02%	0,00%
VI- LOANS	50,31%	54,92%	41,51%	34,05%	39,10%
A. Short-term			41,51%	29,74%	33,26%
B. Medium and long-term			0,00%	4,31%	5,84%
VII- LOANS IN ARREARS [Net]			3,58%	5,19%	0,00%
A. Loans under follow-up [Net]			0,07%	5,19%	0,00%
1) Gross receivable balances			0,13%	6,79%	6,48%
2) Specific provision (-)			-0,06%	-1,60%	-6,48%
B. Doubtful debts [Net]			0,68%	0,00%	0,00%
1) Gross receivable balances			1,31%	1,88%	0,56%
2) Specific provision (-)			-0,63%	-1,88%	-0,56%
C. Bad debts [Net]			2,83%	0,00%	0,00%
1) Gross receivable balances			6,06%	1,48%	1,09%
2) Specific provision (-)			-3,23%	-1,48%	-1,09%
VIII- PREPAYMENTS AND ACCRUED INCOME	14,55%	10,69%	8,45%	2,85%	2,79%
A. Loans			8,45%	0,98%	0,01%
B. Securities portfolio			0,00%	1,60%	2,78%
C. Other			0,00%	0,28%	0,00%
IX- FINANCIAL LEASING RECEIVABLES [Net]			0,00%	0,00%	0,00%
A. Financial leasing receivables			0,00%	0,00%	0,00%
B. Unearned income (-)			0,00%	0,00%	0,00%
X- RESERVE DEPOSITS AT THE CENTRAL BANK	11,11%	10,01%	10,58%	11,63%	12,36%
XI- SUNDRY RECEIVABLES	0,52%	1,67%	0,50%	0,17%	0,00%
XII- PARTICIPATIONS [NET]	0,04%	0,03%	0,06%	0,06%	0,12%
A. Financial participations			0,06%	0,04%	0,00%
B. Other participations			0,00%	0,03%	0,12%
XIII- SUBSIDIARIES [Net]			0,00%	0,00%	0,00%
A. Financial participations			0,00%	0,00%	0,00%
B. Other participations			0,00%	0,00%	0,00%
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]			0,00%	0,00%	0,00%
A. Equity shares			0,00%	0,00%	0,00%
B. Other pledged securities			0,00%	0,00%	0,00%
XV. FIXED ASSETS [Net]	1,66%	1,63%	1,14%	1,00%	1,11%
A. Book value	3,68%	3,40%	2,37%	2,27%	2,72%
B. Accumulated depreciation (-)	-2,02%	-1,77%	-1,23%	-1,26%	-1,61%
XVI- OTHER ASSETS	0,00%	0,00%	0,00%	0,19%	0,50%
TOTAL ASSETS	100,00%	100,00%	100,00%	100,00%	100,00%

TABLE 5

AKDENİZ GARANTİ BANK COMMON SİZE B/S (CONTINUOUS)	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
LIABILITIES					
I- DEPOSITS	**89,76%**	**90,70%**	**93,30%**	**103,42%**	**121,95%**
A. Savings deposits	54,06%	53,93%	15,17%	41,52%	80,32%
B. Official deposits	33,09%	18,15%	16,38%	21,19%	37,75%
C. Commercial deposits	0,79%	5,30%	1,95%	0,09%	0,28%
D. Other institution deposits	0,00%	0,48%	2,68%	3,76%	3,61%
E. Bank deposits	1,83%	12,84%	13,83%	0,00%	0,00%
F. Foreign currency deposit	0,00%	0,00%	43,29%	36,85%	0,00%
G. Gold reserve accounts	0,00%	0,00%	0,00%	0,00%	0,00%
II- INTERBANK FUNDS BORROWED	**0,00%**	**0,00%**	**0,00%**	**0,00%**	**0,00%**
III- FUNDS BORROWED	**3,50%**	**2,20%**	**1,18%**	**0,05%**	**0,00%**
A. TRNC Central Bank funds borrowed	3,50%	2,20%	1,18%	0,05%	0,00%
B. Other funds borrowed			0,00%	0,00%	0,00%
1) Domestic banks and other institution			0,00%	0,00%	0,00%
2) Foreign bank,institutions and funds			0,00%	0,00%	0,00%
3) Capital loans			0,00%	0,00%	0,00%
IV- FUNDS			**0,00%**	**3,88%**	**3,62%**
V- SECURITIES ISSUED [Net]			**0,00%**	**0,00%**	**0,00%**
A. Bonds			0,00%	0,00%	0,00%
B. Asset backed securities			0,00%	0,00%	0,00%
C. Debentures			0,00%	0,00%	0,00%
VI- INTEREST & OTHER EXPENSE ACCRUALS	**2,16%**	**3,34%**	**2,96%**	**3,38%**	**3,67%**
A. Deposits	2,16%	3,34%	2,39%	2,90%	2,76%
B. Borrowed funds	0,00%	0,00%	0,32%	0,26%	0,62%
C. Other	0,00%	0,00%	0,25%	0,22%	0,30%
VII- FINANCIAL LEASING PAYABLES [Net]			**0**	**0,00%**	**0,00%**
A. Financial leasing payables			0	0,00%	0,00%
B. Deffered financial leasing expense (-)			0	0,00%	0,00%
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.	**0,79%**	**0,45%**	**0,26%**	**0,21%**	**0,49%**
IX- IMPORT TRANSFER ORDERS	**0,01%**	**0,02%**	**0,09%**	**0,00%**	**0,00%**
X- MISCELLANEOUS PAYABLES	**1,40%**	**1,40%**	**0,49%**	**0,91%**	**0,91%**
XI- PROVISIONS			**0**	**0,06%**	**0,20%**
A. Retirement pay compensation			0	0,00%	0,00%
B. General provision for loan losses			0	0,06%	0,20%
C. Corporation and income tax provision			0	0,00%	0,00%
D. Other provisions			0	0,00%	0,00%
XII- OTHER LIABILITIES			**0**	**0,00%**	**0,12%**
XIII- SHAREHOLDERS' FUNDS	**2,38%**	**1,89%**	**1,43%**	**-11,90%**	**-30,97%**
A. Share capital paid-up	3,92%	1,57%	1,53%	1,86%	2,21%
1) Nominal share capital			1,53%	2,38%	2,83%
2) Unpaid share capitaL			0	-0,52%	-0,61%
B. Legal reserves	0,12%	0,04%	0,02%	0,05%	0,00%
1) Legal reserves			0,02%	0,05%	0,06%
2) Share premiums			0	0,00%	0,00%
3) Other legal reserves			0	0,00%	0,00%
C. General reserves	0,01%	0,00%	0,00%	0,00%	0,00%
D. Statutory revaluation fund	0,28%	1,01%	0,26%	0,24%	0,29%
E. Revaluation differences			0,00%	0,00%	0,00%
F. Loss			-0,38%	-14,06%	-33,54%
1) Current period loss			0,00%	-13,95%	-16,85%
2) Previous period losses	-2,13%	-0,80%	-0,38%	-0,11%	-16,69%
XIV- PROFIT			**0,29%**	**0,00%**	**0,00%**
A. Current period profit	0,00%	0,00%	0,29%	0,00%	0,00%
B. Previous period profit	0,19%	0,07%	0,00%	0,00%	0,00%
TOTAL LIABILITIES	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**

4.2.2 ANNUAL PERCENTAGE CHANGE ANALYSIS

4.2.2.1 VAKIFLAR BANK ANNUAL PERCENTAGE CHANGE ANALYSIS

ASSET:

CASH BALANCES: In 2004 unbelievable increase happened at Vakıflar Bank. This year the deposit of the bank increased very high. It didn't give credit to the foreign. However, in 2006 there was a decrease according to the others. But in 2001 after the crises its position was negative. In short, the deposits were very low.

BANKS: The investment to the Central Bank in 2002 was much more than to the other years. The reason was the Central Bank had attractive ratios of interest or the banks not to take care the risk of the customers who demanded credit. Also the investment to the foreign banks increased in 2005. The reason is, it can be attractive ratio interest of the foreign banks. In 2006 the investment to foreign banks was negative.

SECURİTİES PORTFOLIO: When we look to the years, 2003 securities portfolio was increased by showing, considerably differentiate to the others, and it has been seen that the deposit has been too much this year. 2002 was the year that it fell too much. When we look at the deposits in the year of 2005-2006, it wasn't very high.

LOANS: The loans were the highest in 2004-2005 according to the other years. The deposits which were high in 2005 depended on the union of the two banks. Because the deposit is combined. The rate of given credit has been decreased in 2006.

RESERVE DEPOSIT AT THE CENTRAL BANK: 2002 was the highest in reserve deposit at the central bank in the other years. That is to say, it has to invest 10% (ten percent) of the money it collected to the Central Bank (additional equivalent). 2005 was high as well as in 2002. The reason was, after the union the deposit is combined.

LIABILITIES:

DEPOSIT: Deposit was increased in 2002. The reason was, less credit was given to the customer. The year of 2003 and 2006 was the lowest among the other years. The reason was, the credit which was given to the customer increased and low interest was given to the customers' deposits. After the union in 2005 deposit was increased.

FUNDS BORROWED: In 2002, the credit which was taken from the Central Bank was much according to the other years. That is to say, the bank had cash problem. After 2002 when we look the years all of them were negative that means that the position of the bank was good.

INTEREST&OTHER EXPENSE ACCRUALS: Vakıflar Bank took many accruals from the Central Bank in 2005. In short, with the union of Akdeniz Garanti Bank made it increase.

SHAREHOLDERS FUNDS: In 2005 there was considerable increase in shareholder. The reason was, the union of the two banks. This union was very suitable for Vakıflar Bank.

PROFIT: 2003 was the year of Vakıflar Bank which made a lot of profit. If we look 2005-2006 the profit was decreased too much. One of the falling reason was it admited Akdeniz Garanti Bank which its position wasn't good.

TABLE 6

ANNUAL PERCENTAGE CHANGE ANALYSIS

VAKIFLAR BANK BALANCE SHEET

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
ASSETS							
I- CASH BALANCES		-95,39%	40,22%	28,36%	105,93%	18,25%	6,01%
A. Cash - Turkish Lira balances			-5,15%	75,42%	-34,51%	291,02%	-8,91%
B. Cash - Foreign Currency balances			71,46%	21,87%	13,83%	95,17%	35,17%
C. Others			0,00%	-100,00%	0,00%	-100,00%	0,00%
II- BANKS		401,70%	193,47%	-44,69%	-0,51%	83,77%	-1,92%
A. TRNC Central Bank			130,02%	28,05%	-2,73%	20,72%	8,16%
B. Others Banks			238,99%	-80,10%	6,43%	264,30%	-11,49%
1) Domestic Banks			19,09%	-30,90%	-26,85%	1389,15%	-38,24%
2) Foreign Banks			239,45%	-80,13%	6,52%	262,33%	-11,30%
III- OTHER FINANCIAL INSTITUTION			0,00%	0,00%	0,00%	0,00%	0,00%
IV - INTERBANK FUNDS SOLD			0,00%	0,00%	0,00%	0,00%	0,00%
V- SECURITIES PORTFOLIO[Net]		2,52%	-56,89%	20018,47%	22,23%	-28,30%	-15,32%
A. Government Bonds and treasury bills			-56,89%	30,00%	25,00%	371,55%	-100,00%
B. Others Bonds			0,00%	0,00%	0,00%	0,00%	0,00%
C. Equity shares			0,00%	0,00%	0,00%	0,00%	0,00%
D. Other marketable securities			0,00%	0,00%	22,21%	-30,96%	-11,48%
VI- LOANS		11,92%	-49,49%	47,87%	263,25%	186,96%	42,87%
A. Short-term			-58,90%	-9,04%	158,56%	154,18%	27,59%
B. Medium and long-term			0,00%	296,30%	368,15%	205,11%	49,91%
VII- LOANS IN ARREARS [Net]			-37,21%	-99,94%	-100,00%	0,00%	595,21%
A. Loans under follow-up [Net]			-49,09%	-100,00%	0,00%	0,00%	149,14%
1) Gross receivable balances			-39,47%	90,63%	3,36%	598,86%	-34,81%
2) Specific provision (-)			143,30%	848,52%	3,36%	487,32%	-69,74%
B. Doubtful debts [Net]			-100,00%	0,00%	0,00%	0,00%	95,92%
1) Gross receivable balances			-100,00%	0,00%	1439,85%	7837,36%	92,18%
2) Specific provision (-)			-100,00%	0,00%	1439,85%	3034,38%	86,46%
C. Bad debts [Net]			0,00%	-99,92%	-100,00%	0,00%	0,00%
1) Gross receivable balances			0,00%	-17,66%	51,74%	14,76%	512,08%
2) Specific provision (-)			0,00%	33,14%	51,80%	14,76%	250,23%
VIII- PREPAYMENTS AND ACCRUED INCOME			627,49%	131,69%	-47,56%	-29,02%	-40,90%
A. Loans			-20,08%	-57,61%	-85,32%	5236,13%	-73,76%
B. Securities portfolio			66,82%	25881,50%	-47,33%	-49,81%	-21,05%
C. Other			958,71%	-100,00%	0,00%	0,00%	-100,00%
IX- FINANCIAL LEASING RECEIVABLES [Net]			0,00%	0,00%	0,00%	0,00%	0,00%
A. Financial leasing receivables			0,00%	0,00%	0,00%	0,00%	0,00%
B. Unearned income (-)			0,00%	0,00%	0,00%	0,00%	0,00%
X- RESERVE DEPOSITS AT THE CENTRAL BANK			83,38%	10,03%	13,00%	78,58%	14,33%
XI- SUNDRY RECEIVABLES			18,40%	-87,89%	77,20%	65,72%	391,41%
XII- PARTICIPATIONS [NET]			25,62%	0,00%	21,84%	382,58%	12,50%
A. Financial participations			25,62%	0,00%	21,84%	148,70%	9,83%
B. Other participations			0,00%	0,00%	0,00%	0,00%	15,35%
XIII- SUBSIDIARIES [Net]		-83,63%	-77,82%	0,00%	0,00%	0,00%	0,00%
A. Financial participations			-77,82%	0,00%	0,00%	0,00%	0,00%
B. Other participations			0,00%	0,00%	0,00%	0,00%	0,00%
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]			0,00%	0,00%	0,00%	0,00%	0,00%
A. Equity shares			0,00%	0,00%	0,00%	0,00%	0,00%
B. Other pledged securities			0,00%	0,00%	0,00%	0,00%	0,00%
XV. FIXED ASSETS [Net]			9,66%	5,92%	7,56%	103,55%	-0,36%
A. Book value			16,45%	8,09%	11,92%	134,03%	2,05%
B. Accumulated depreciation (-)			29,87%	11,72%	18,81%	177,71%	4,58%
XVI- OTHER ASSETS			-86,01%	61,33%	87,98%	85,16%	-86,73%
TOTAL ASSETS		101,34%	57,33%	26,01%	35,66%	73,39%	22,84%

TABLE 6 **ANNUAL PERCENTAGE CHANGE ANALYSES**

VAKIFLAR BANK BALANCE SHEET (CONTINUOUS)

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
LIABILITIES							
I- DEPOSITS		47,54%	95,06%	22,45%	36,89%	74,80%	22,75%
A. Savings deposits			150,08%	46,22%	16,96%	269,49%	9,47%
B. Official deposits			59,65%	68,79%	50,33%	143,22%	48,91%
C. Commercial deposits			45,46%	20,28%	55,47%	140,73%	0,83%
D. Other institution deposits			-87,91%	48,71%	38,13%	298,52%	-5,72%
E. Bank deposits			3278,32%	95,33%	-9,70%	713,20%	-20,32%
F. Foreign currency deposit			98,88%	-5,26%	43,12%	-100,00%	0,00%
G. Gold reserve accounts			0,00%	0,00%	0,00%	0,00%	0,00%
II- INTERBANK FUNDS BORROWED			0,00%	0,00%	0,00%	0,00%	0,00%
III- FUNDS BORROWED			24,14%	-52,98%	-18,08%	-13,83%	-99,63%
A. TRNC Central Bank funds borrowed			24,14%	-52,98%	-18,08%	-13,83%	-99,63%
B. Other funds borrowed			0,00%	0,00%	0,00%	0,00%	0,00%
1) Domestic banks and other institution			0,00%	0,00%	0,00%	0,00%	0,00%
2) Foreign bank,institutions and funds			0,00%	0,00%	0,00%	0,00%	0,00%
3) Capital loans			0,00%	0,00%	0,00%	0,00%	0,00%
IV- FUNDS			0,00%	0,00%	-28,86%	237,60%	53,36%
V- SECURITIES ISSUED (Net)			0,00%	0,00%	0,00%	0,00%	0,00%
A. Bonds			0,00%	0,00%	0,00%	0,00%	0,00%
B. Asset backed securities			0,00%	0,00%	0,00%	0,00%	0,00%
C. Debentures			0,00%	0,00%	0,00%	0,00%	0,00%
VI- INTEREST & OTHER EXPENSE ACCRUALS			61,51%	12,96%	-47,04%	151,14%	-13,60%
A. Deposits			61,34%	-6,03%	-37,32%	120,51%	-1,54%
B. Borrowed funds			0,00%	0,00%	-51,00%	4156,46%	0,09%
C. Other			0,00%	18280,62%	-95,01%	1847,35%	-100,00%
VII- FINANCIAL LEASING PAYABLES (Net)			0,00%	0,00%	0,00%	0,00%	0,00%
A. Financial leasing payables			0,00%	0,00%	0,00%	0,00%	0,00%
B. Deffered financial leasing expense (-)			0,00%	0,00%	0,00%	0,00%	0,00%
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.		224,49%	52,14%	9,34%	-58,49%	68,95%	17,53%
IX- IMPORT TRANSFER ORDERS			-39,89%	-66,48%	-18,89%	92,85%	183,89%
X- MISCELLANEOUS PAYABLES			294,04%	-73,25%	457,71%	244,70%	115,87%
XI- PROVISIONS			67,81%	110,29%	62,22%	-13,79%	29,31%
A. Retirement pay compensation			60,66%	45,53%	44,09%	22,95%	39,73%
B. General provision for loan losses			0,00%	58,16%	264,53%	195,50%	51,25%
C. Corporation and Income tax provision			78,13%	440,61%	104,71%	-82,33%	-100,00%
D. Other provisions			11,51%	2266,90%	-98,02%	1,85%	3,26%
XII- OTHER LIABILITIES			-83,36%	-84,73%	196,31%	430,83%	42,74%
XIII- SHAREHOLDERS' FUNDS		111,98%	13,00%	11,15%	98,68%	118,16%	38,04%
A. Share capital paid-up			146,67%	13,51%	90,48%	112,50%	0,00%
1) Nominal share capital			146,67%	13,51%	90,48%	112,50%	0,00%
2) Unpaid share capitaL			0,00%	0,00%	0,00%	0,00%	0,00%
B. Legal reserves			58,42%	50,20%	289,66%	176,82%	20,66%
1) Legal reserves			58,42%	50,20%	289,66%	176,82%	20,66%
2) Share premiums			0,00%	0,00%	0,00%	0,00%	0,00%
3) Other legal reserves			0,00%	0,00%	0,00%	0,00%	0,00%
C. General reserves			1,34%	15,64%	112,72%	140,37%	671,10%
D. Statutory revaluation fund			-93,52%	-100,00%	0,00%	0,00%	0,00%
E. Revaluation differences			0,00%	0,00%	0,00%	0,00%	0,00%
F. Loss			0,00%	0,00%	0,00%	0,00%	0,00%
1) Current period loss			0,00%	0,00%	0,00%	0,00%	0,00%
2) Previous period losses			0,00%	0,00%	0,00%	0,00%	0,00%
XIV- PROFIT			34,24%	778,29%	137,88%	-57,65%	-61,50%
A. Current period profit			34,23%	778,93%	137,87%	-67,66%	-49,57%
B. Previous period profit			43,69%	6,64%	172,69%	86569,22%	-100,00%
TOTAL LIABILITIES		102,58%	57,33%	26,01%	35,66%	73,39%	22,84%

4.2.2.2 AKDENİZ GARANTİ BANK ANNUAL PERCENTAGE CHANGE ANALYSIS

ASSET:

CASH BALANCES: In 2002, there was an increase at Akdeniz Garanti Bank. That is to say it gave credit to the customers. However, in 2002 cash balances were decreased too much on the contrary of Vakıflar Bank.

BANKS: As it was at Vakıflar Bank, there was investment to the Central Bank in 2002. Because of the attractive interests. The investment for the Central Bank in 2003 was almost nothing. On the contrary of this, the investment for the foreign banks increased.

LOANS: The highest year of the credits was in 2001. The lowest years were 2003-2004. There was recession in the deposits of the bank. Its ratios of credit interest were very high according to other banks.

RESERVE DEPOSİTS AT THE CENTRAL BANK: The money which the banks collected in 2001 and 2002 was very high according to the other years.

LIABILITIES

DEPOSIT: Deposit was increased in 2001. Little credit was given to the customer in 2001. It was the lowest in 2004 on the contrary of Vakıflar Bank. That is to say, the credit which was given to the customer was increased and low interest was given to the customers' deposits.

FUNDS BORROWED: The credit which was taken from the Central Bank in 2001 according to the other a year was much. In short, Akdeniz Garanti Bank had cash problem. The credit which was taken from the Central Bank fell in 2003 like Vakıflar Bank. In this case, the position of Akdeniz Garanti Bank was good.

INTEREST &OTHER EXPENSE ACCRUALS: Accruals were very high in 2001. In short, many accruals were taken from the Central Bank. But gradually fell in other year

SHAREHOLDERS FUNDS: Shareholders increased in 2004.the reason was the union of the two banks. In 2003 there was considerable fell in shareholders.

PROFIT: The bank didn't make profit in 2005. There were income and expenses equality. It didn't make profit that year. It had a deficit in 2003. This bank which had a deficit was joined to Vakıflar Bank which was another bank of the government by the government authorities.

TABLE 7

ANNUAL PERCENTAGE CHANGE ANALYSIS

AKDENİZ GARANTİ BANK BALANCE SHEET

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
ASSETS					
I- CASH BALANCES		**56,50%**	**79,16%**	**0,84%**	**-35,53%**
A. Cash - Turkish Lira balances		29,35%	-23,44%	55,98%	-91,25%
B. Cash - Foreign Currency balances		231,32%	-5,03%	6,27%	-64,70%
C. Others		0,00%	0,00%	-31,70%	48,65%
II- BANKS		**288,86%**	**186,57%**	**52,96%**	**-52,61%**
A. TRNC Central Bank		144,86%	236,21%	-24,93%	22,14%
B. Others Banks		0,00%	0,00%	175,01%	-100,00%
1) Domestic Banks		-84,13%	365,89%	18239,09%	-88,86%
2) Foreign Banks		1036,98%	132,54%	144,81%	-84,04%
III- OTHER FINANCIAL INSTITUTION		**0,00%**	**0,00%**	**0,00%**	**0,00%**
IV - INTERBANK FUNDS SOLD		**0,00%**	**0,00%**	**0,00%**	**0,00%**
V- SECURITIES PORTFOLIO[Net]		**35,48%**	**341,28%**	**15,17%**	**88,36%**
A. Government Bonds and treasury bills				0,00%	25,00%
B. Others Bonds				0,00%	0,00%
C. Equity shares				0,00%	0,00%
D. Other marketable securities				14,94%	-100,00%
VI- LOANS		**190,80%**	**44,40%**	**-12,92%**	**-3,26%**
A. Short-term				-23,95%	-5,77%
B. Medium and long-term				0,00%	14,03%
VII- LOANS IN ARREARS [Net]				**54,04%**	**-100,00%**
A. Loans under follow-up [Net]				7852,23%	-100,00%
1) Gross receivable balances				5617,73%	-19,56%
2) Specific provision (-)				2886,63%	242,23%
B. Doubtful debts [Net]				-100,00%	0,00%
1) Gross receivable balances				52,39%	-74,95%
2) Specific provision (-)				218,58%	-74,95%
C. Bad debts [Net]				-100,00%	0,00%
1) Gross receivable balances				-74,05%	-38,16%
2) Specific provision (-)				-51,36%	-38,16%
VIII- PREPAYMENTS AND ACCRUED INCOME		**95,67%**	**51,01%**	**-64,14%**	**-17,67%**
A. Loans				-87,74%	-99,14%
B. Securities portfolio				0,00%	46,44%
C. Other				0,00%	-99,76%
IX- FINANCIAL LEASING RECEIVABLES [Net]				**0,00%**	**0,00%**
A. Financial leasing receivables				0,00%	0,00%
B. Unearned income (-)				0,00%	0,00%
X- RESERVE DEPOSITS AT THE CENTRAL BANK		**139,91%**	**101,91%**	**16,74%**	**-10,45%**
XI- SUNDRY RECEIVABLES		**762,93%**	**-43,06%**	**-63,18%**	**-100,00%**
XII- PARTICIPATIONS [NET]		**112,89%**	**218,69%**	**18,46%**	**52,36%**
A. Financial participations				-28,26%	-99,82%
B. Other participations				0,00%	286,07%
XIII- SUBSIDIARIES [Net]				**0,00%**	**0,00%**
A. Financial participations				0,00%	0,00%
B. Other participations				0,00%	0,00%
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]				**0,00%**	**0,00%**
A. Equity shares				0,00%	0,00%
B. Other pledged securities				0,00%	0,00%
XV. FIXED ASSETS [Net]		**161,50%**	**33,87%**	**-6,75%**	**-7,06%**
A. Book value		145,57%	33,24%	1,56%	1,11%
B. Accumulated depreciation (-)		132,51%	32,65%	9,30%	7,60%
XVI- OTHER ASSETS		**0,00%**	**0,00%**	**0,00%**	**124,16%**
TOTAL ASSETS		**166,39%**	**91,02%**	**6,16%**	**-15,76%**

TABLE 7

ANNUAL PERCENTAGE CHANGE ANALYSIS

AKDENİZ GARANTİ BANK BALANCE SHEET (CONTINUOUS)

LIABILITIES	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
I- DEPOSITS		169,16%	96,51%	17,68%	-0,67%
A. Savings deposits		165,77%	-46,26%	190,50%	62,96%
B. Official deposits		46,13%	72,39%	37,33%	50,08%
C. Commercial deposits		1696,16%	-29,63%	-94,83%	144,32%
D. Other institution deposits		0,00%	970,41%	49,17%	-19,28%
E. Bank deposits		1769,95%	105,82%	-100,00%	0,00%
F. Foreign currency deposit		0,00%	0,00%	-9,61%	-100,00%
G. Gold reserve accounts		0,00%	0,00%	0,00%	0,00%
II- INTERBANK FUNDS BORROWED		0,00%	0,00%	0,00%	0,00%
III- FUNDS BORROWED		67,58%	2,50%	-95,58%	-92,72%
A. TRNC Central Bank funds borrowed		67,58%	2,50%	-95,58%	-92,72%
B. Other funds borrowed				0,00%	0,00%
1) Domestic banks and other institution				0,00%	0,00%
2) Foreign bank,institutions and funds				0,00%	0,00%
3) Capital loans				0,00%	0,00%
IV- FUNDS				0,00%	-21,35%
V- SECURITIES ISSUED [Net]				0,00%	0,00%
A. Bonds				0,00%	0,00%
B. Asset backed securities				0,00%	0,00%
C. Debentures				0,00%	0,00%
VI- INTEREST & OTHER EXPENSE ACCRUALS		312,05%	69,09%	21,05%	-8,32%
A. Deposits		312,05%	36,64%	28,65%	-19,90%
B. Borrowed funds		0,00%	0,00%	-14,56%	99,51%
C. Other		0,00%	0,00%	-6,18%	17,15%
VII- FINANCIAL LEASING PAYABLES [Net]				0,00%	0,00%
A. Financial leasing payables				0,00%	0,00%
B. Deffered financial leasing expense (-)				0,00%	0,00%
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.		49,71%	11,15%	-14,12%	97,25%
IX- IMPORT TRANSFER ORDERS		589,70%	751,61%	-99,94%	3186,90%
X- MISCELLANEOUS PAYABLES		166,66%	-33,78%	99,05%	-15,85%
XI- PROVISIONS				0,00%	195,29%
A. Retirement pay compensation				0,00%	0,00%
B. General provision for loan losses				0,00%	195,29%
C. Corporation and Income tax provision				0,00%	0,00%
D. Other provisions				0,00%	0,00%
XII- OTHER LIABILITIES				0,00%	0,00%
XIII- SHAREHOLDERS' FUNDS		112,29%	44,30%	-983,64%	119,23%
A. Share capital paid-up		6,73%	85,88%	29,66%	0,00%
1) Nominal share capital				65,53%	0,00%
2) Unpaid share capital				0,00%	0,00%
B. Legal reserves		0,00%	0,00%	127,07%	-100,00%
1) Legal reserves				127,07%	0,00%
2) Share premiums				0,00%	0,00%
3) Other legal reserves				0,00%	0,00%
C. General reserves		0,00%	0,00%	0,00%	0,00%
D. Statutory revaluation fund		873,11%	-50,60%	0,00%	0,00%
E. Revaluation differences				0,00%	0,00%
F. Loss				3805,97%	100,93%
1) Current period loss				0,00%	1,72%
2) Previous period losses		0,04%	-8,77%	-68,96%	12483,33%
XIV- PROFIT				-100,00%	0,00%
A. Current period profit		-100,00%	0,00%	-100,00%	0,00%
B. Previous period profit		0,00%	-100,00%	0,00%	0,00%
TOTAL LIABILITIES		166,39%	91,02%	6,16%	-15,76%

4.2.3 RATIO ANALYSIS

4.2.3.1 VAKIFLAR BANK RATIO ANALYSIS

PROFITABILITY RATIO

Generally when we look to the years specially profitability ratio was fallen down after the union. We see;

RETURN ON ASSET (ROA): When we generally look the years in return on asset we see that ıt has fallen after the union. In 2003 while it is 2.55% in 2006 fall to 0.34%. This figures shows as how efficient management is activity its assets to generate earnings.

RETURN ON EQUİTY (ROE): We see a super increase in 2004; this shows that shareholders left much profit to the bank in 2004. But in 2000 (after the crises) a visible fall happened. In 2003 it increased again and fell in 2005-2006. As we take out a meaning from this, the union wasn't being suitable for Vakıflar Bank.

NET NONINTEREST MARGIN: After 2001 the ratio fell too much so there is no net non interest margin (2002-2003-2004-2005-2006).

RATIOS

TABLE 8

RATIO ANALYSIS OF VAKIFLAR BANK

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
I- INTEREST INCOME	10.811.959,00	14.909.446,00	31.251.476,00	46.830.031,00	49.228.050,00	56.355.554,00	68.861.862
II- INTEREST EXPENSES	8.485.747	14.749.541	24.424.728	31.285.924	23.961.529	38.034.336	38.944.798
III- NET INTEREST INCOME [I-II]		159.908	6.826.748	15.544.106	25.266.521	18.321.218	29.917.064
IV- OTHER NON-INTEREST OPERATING INCOME		6.294.636	5.597.328	2.696.971	6.041.646	15.595.323	18.180.216
V- OTHER NON INTEREST OPERATING EXPENSES		4.422.856	10.730.246	11.179.875	15.645.142	28.807.790	45.209.561
VI- NET OTHER INCOME [IV-V]		1.871.781	-5.132.917	-8.482.904	-9.603.496	-13.212.467	-27.029.345
XII- NET PROFIT	84.272	418.714	562.031	4.939.860	11.750.678	3.799.796	1.916.236
XIII- SHAREHOLDERS' FUNDS	1.691.817	3.586.326	4.052.511	4.504.511	8.949.511	19.524.580	26.951.477
IX- LOANS	24.934.087	27.905.364	14.095.135	20.841.803	75.707.061	217.251.835	310.379.150
X- DEPOSİTS	46.475.912	68.569.931	133.751.255	163.781.769	224.199.194	391.905.309	481.064.533
TOTAL ASSETS	48.568.397	97.785.576	153.849.002	193.871.164	263.008.535	456.040.173	560.220.518
PROFITABILITY RATIO:							
ROA	0,17%	0,43%	0,37%	2,55%	4,47%	0,83%	0,34%
ROE	4,98%	11,68%	13,87%	109,66%	131,30%	19,46%	7,11%
NET INTEREST MARGIN	4,79%	0,16%	4,44%	8,02%	9,61%	4,02%	5,34%
NET NONINTEREST MARGIN		1,91%	-3,34%	-4,38%	-3,65%	-2,90%	-4,82%
NET BANK OPERATING MARGIN		-1,75%	7,77%	12,39%	13,26%	6,91%	10,16%
CAPITAL ADEQUANCY:							
FINANCIAL INDEPENDENCY RATIO	3,48%	3,67%	2,63%	2,32%	3,40%	4,28%	4,81%
ASSET QUALİTY:							
RATIO	51,34%	28,54%	9,16%	10,75%	28,79%	47,64%	55,40%
RATIO	53,65%	40,70%	10,54%	12,73%	33,77%	55,43%	64,52%

4.2.3.2 AKDENİZ GARANTİ BANK RATIO ANALYSIS

PROFITABILITY RATIO

When we look to the profititability ratio in 2003-2004 we saw that a decreased took place we understood from this the position has been taken Akdeniz Garanti Bank on that years was bad.

RETURN ON EQUİTY (ROE): When we care the years, according to the other years there was an increase in 2002. This shows that shareholders left much profit to the bank. After 2002 there wasn't investment. As we have understood from this there was a problem between 2003 and 2004 at Akdeniz Garanti Bank and as a conclusion of this it went bankrupt.

RETURN ON ASSET (ROA): There was a fall in 2000 and in 2001, then there was a slight increase in 2002 and finally there weren't any investments in 2003 and 2004. We can understand from this why Akdeniz Garanti Bank passed problematic years.

NET NONINTEREST MARGIN: When we look the years 2000 and 2001 were very low in netnon interest margin was increasing a little in 2002-2003, it decreased in 2004.

TABLE 9

RATIO ANALYSIS OF AKDENİZ G. BANK

	RATIOS				
	2000	2001	2002	2003	2004
III- OTHER FINANCIAL INSTITUTION	0	0	0	0	0
IV - INTERBANK FUNDS SOLD	0	0	0	0	0
V- SECURITIES PORTFOLIO[Net]	2.695.161	3.651.409	16.112.775	18.557.277	34.955.016
VI- LOANS	15.649.658	45.509.070	65.712.939	57.221.351	55.354.793
VII- LOANS IN ARREARS [Net]			5.666.711	8.729.158	0
VIII- PREPAYMENTS AND ACCRUED INCOME	4.527.075	8.858.226	13.377.071	4.797.051	3.949.599
X- RESERVE DEPOSITS AT THE CENTRAL BANK	3.455.856	8.290.906	16.740.551	19.543.424	17.501.915
XI- SUNDRY RECEIVABLES	160.722	1.386.922	789.720	290.752	0
IX- FINANCIAL LEASING RECEIVABLES [Net]			0	0	0
TOTAL ASSETS	31.107.160	82.867.364	158.296.982	168.048.802	141.563.699
I- CASH BALANCES	907.042	1.419.543	2.543.292	2.564.537	1.653.290
II- BANKS	3.181.535	12.371.639	35.453.885	54.231.902	25.702.625
I- DEPOSITS	27.922.405	75.156.841	147.692.350	173.800.479	172.641.766
II- INTERBANK FUNDS BORROWED	0	0	0	0	0
III- FUNDS BORROWED	1.089.170	1.825.236	1.870.825	82.772	6.027
V- SECURITIES ISSUED [Net]			0	0	0
VI- INTEREST & OTHER EXPENSE ACCRUALS	672.515	2.771.089	4.685.530	5.672.050	5.199.987
XIII- SHAREHOLDERS' FUNDS	738.796	1.568.425	2.263.271	-19.999.127	-43.844.904
XIV- PROFIT	57.907	58.157	466.887	0	0
INTEREST INCOME	30.577.049	81.487.715	156.396.944	165.935.452	139.117.238
INTEREST EXPENSE	29.684.090	79.753.166	154.248.705	179.555.301	177.847.780
NET INTEREST INCOME	892.959	1.734.549	2.148.239	-13.619.849	-38.730.542
VIII- TAXES,DUTIES,SOCIAL SECURITY PREMIUMS PAY.	247.073	369.902	411.138	353.082	696.439
IX- IMPORT TRANSFER ORDERS	2.368	16.332	139.085	84	2.761
X- MISCELLANEOUS PAYABLES	434.833	1.159.539	767.896	1.528.510	1.286.185
XI- PROVISIONS			0	94.002	277.578
XII- OTHER LIABILITIES			0	0	172.015
XII- PARTICIPATIONS [NET]	13.507	28.755	91.640	108.556	165.399
XIII- SUBSIDIARIES [Net]			0	0	0
XIV- PLEDGED SECURITIES AND LONG TERM INVESTMENTS [Net]			0	0	0
XV- FIXED ASSETS [Net]	516.604	1.350.894	1.808.398	1.686.369	1.567.274
XVI- OTHER ASSETS	0	0	0	318.425	713.788
NONINTEREST INCOME	530.111	1.379.649	1.900.038	2.113.350	2.446.461
NONINTEREST EXPENSE	684.274	1.545.773	1.318.119	1.975.678	2.434.978
NET OTHER INCOME	-154.163	-166.124	581.919	137.672	11.483

	2000	2001	2002	2003	2004
PROFİTABİLİTY RATIO:					
ROE	7,84%	3,71%	20,63%	0,00%	0,00%
ROA	0,19%	0,07%	0,29%	0,00%	0,00%
NET INTEREST MARGIN	2,87%	2,09%	1,36%	-8,10%	-27%
NET NONINTEREST MARGIN	-0,50%	-0,20%	0,37%	0,08%	0,01%
NET BANK OPERATING MARGIN	3,37%	2,29%	0,99%	-8,19%	-27,37%
CAPITAL ADEQUANCY:					
FINANCIAL INDEPENDENCY RATIO	2,38%	1,89%	1,43%	-11,90%	-30,97%
ASSET QUALITY:					
RATIO	50,31%	54,92%	41,51%	34,05%	39,10%
RATIO	56,05%	60,55%	44,49%	32,92%	32,06%

CHAPTER 5

CONCLUSION

During the 1990s a large process of financial consolidation has taken place in the most countries financial systems, while in North Cyprus there is a little evidence on the effect of financial consolidation and the literature remains limited.

After 2001 crise in North Cyprus we see that some banks feld into banking insolvency. As a result of this action the government of North Cyprus took these banks into deposit insurance fund. After this action some banks liquidated and some mergered with other banks. Therefore, in 2004 Akdeniz Garanti Bank mergered with Vakıflar Bank. This merger is the subject of this study.

Generally when we look the results of analyses :

Common Size analyses; the profit of Vakıflar Bank in 2005 while it is 1.09% in 2006 decreased to 0.34%. The profit of Akdeniz Garanti Bank in 2003-2004 decreased to 0.00%. This means that it hasn't any profit.Annual Percentage Change analyses; the profit of Vakıflar Bank while it is 137.88% in 2004 after the union in 2005 -57.65% and in 2006 decreased to -61.50%. Annual Percentage Change analyses; the profit of Akdeniz Garanti Bank in 2004 decreased to 0.00%. In any case after 2004 merger has been took place. Annual Percentage Change analyses; when we look the loans of Akdeniz Garanti Bank in 2004 it decreased to negative. That is to say it hasn't give credit to foreign. Annual Percentage analyses; after the union of banks Vakıflar Bank loans has been decreased. This means that in 2004 to 263.25%, in 2005 to 186.96% and in 2006 to 42.87%. Vakıflar Bank Ratio analyses; between 2000-2004 the situation of bank was good. When we look ROA; in 2004 while it is 4.47% after the union we saw that it decreased to 0.83%. ROE; while it is 131.30% in 2004, we saw that it decreased to 19.46% in 2005.

Akdeniz Garanti Bank Ratio analyses shows us; ROE and ROA decrease to 0.00% in 2003-2004. We understood from these results Akdeniz Garanti Bank situation was bad.

After I explained briefly of analyses I understood that Akdeniz Garanti Bank position was very bad. When the results of the union of the banks in TRNC have been explained which is the aim of this study, specially it has been understood that it became bad according the perivious years after the union of Vakıflar Bank.So we understand that the union of Vakıflar Bank with Akdeniz Garanti Bank weakened the Vakıflar Bank position.

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