University of Jijel
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Module : English for Specific Purposes ***Teacher :Manel.A***
Level : M1_ Economics of Money and Banking ***Academic year :2024-2025***

Bank Organization

The way in which a bank is organised and operates is determined by its objectives and by the type of economy in which it conducts its business. A bank may not necessarily be in business to make a profit. Central banks, for example, provide a country with a number of services, while development banks exist to increase the economic growth of a country and raise the living standard of its population. On the other hand, the aim of commercial banks is to earn profits. They therefore provide and develop services that can be sold at a price that will yield a profit.

A commercial bank which provides the same range of services year after year is less likely to be successful than one which assesses changes in the demand for its products and which tries to match products to its customers' needs. New services are constantly being introduced and developed by commercial banks, and the full-service philosophy of many banks means that they are akin to financial supermarkets, offering a wide variety of services. However, not every bank may want to offer every kind of financial service.

Many banks offer a combination of wholesale and retail banking. The former provides large-scale services to companies, government agencies and other banks. The latter mainly provides smaller-scale services to the general public. Both types of banking, however, have three essential functions, which are: deposits, payments, credits. These three functions are the basis of the services offered by banks. They make it possible for banks to generate profits and to achieve their operating aims. Several factors have combined to make banking an international business. These include the growth of multinational companies and of international capital markets, the increased competition between the banks themselves, and important improvements in communications and transportation. The major banks of the world have established extensive international operations by acquiring banks in other countries, by extending their own branch network abroad and by establishing correspondent relationships with foreign banks so as to develop profitable joint operations. The operations of these major commercial banks are dynamic and rapidly changing, and their organization is of a global nature.

Banks necessarily use sophisticated accounting systems to record as clearly as possible what the financial situation of the bank is. Normally such a system is based on the principle of the double entry, which means that each transaction is entered twice, as a credit in one account and as a debit in another account. If we deposit $100 with a bank, for example, the bank enters a debit for the receiver and a credit for the giver. The former represents an asset to the bank, since it is a sum of money at the bank's disposal, as well as a liability, since it will one day have to be repaid.

The balance sheet of a bank gives us a view of its financial situation at one point in time, usually 31 December of a particular year. But we do not know what has happened between two balance sheets. This information is provided by the profit and loss account for the period in question. Neither statement is exactly uniform from bank to bank, but both contain certain essential features. The largest asset of a bank is normally its total portfolio of loans. Deposits usually constitute the largest liability. Balance sheets usually include the following items listed as assets:

- cash on hand and due from banks - money in vaults, balances with other banks, cheques in process of collection.
- investments - bonds, shares, etc.
- loans - to companies, the general public, etc.
- fixed assets - buildings, equipment, etc.

Items listed in the balance sheet as liabilities are:

- deposits - all money owed to depositors.
- taxes payable - national and local.
- dividends payable - decided on, but not yet paid.

The profit and loss account records the income of a bank, and here, typically, the items in order of size are:

- interest on loans;
- return on investments;
- fees, commissions, service charges.

The granting of credit provides the largest single source of bank income. Typically, two thirds of an American commercial bank's yearly earnings result from interest on loans. Nine out of every ten dollars they lend come from depositors' funds.

The following items normally constitute the main expenses in a bank's profit and loss account, again in typical order of size:

- interest paid;
- salaries and other benefits;
- taxes.

A bank's accounting systems, then, are designed to record and present the transactions that take place every day. Substantial reserves over and above statutory requirements are an indication to customers of the bank's strength, that it has run its business well and has retained profits in the business for future operations. Profitability indicates the effectiveness of a bank's performance and how well it has managed the resources under its control. Published figures thus provide some essential data on the liquidity, safety and income of a bank.

❖ ***Text based Activities***

1. Answer the following questions based on the lecture

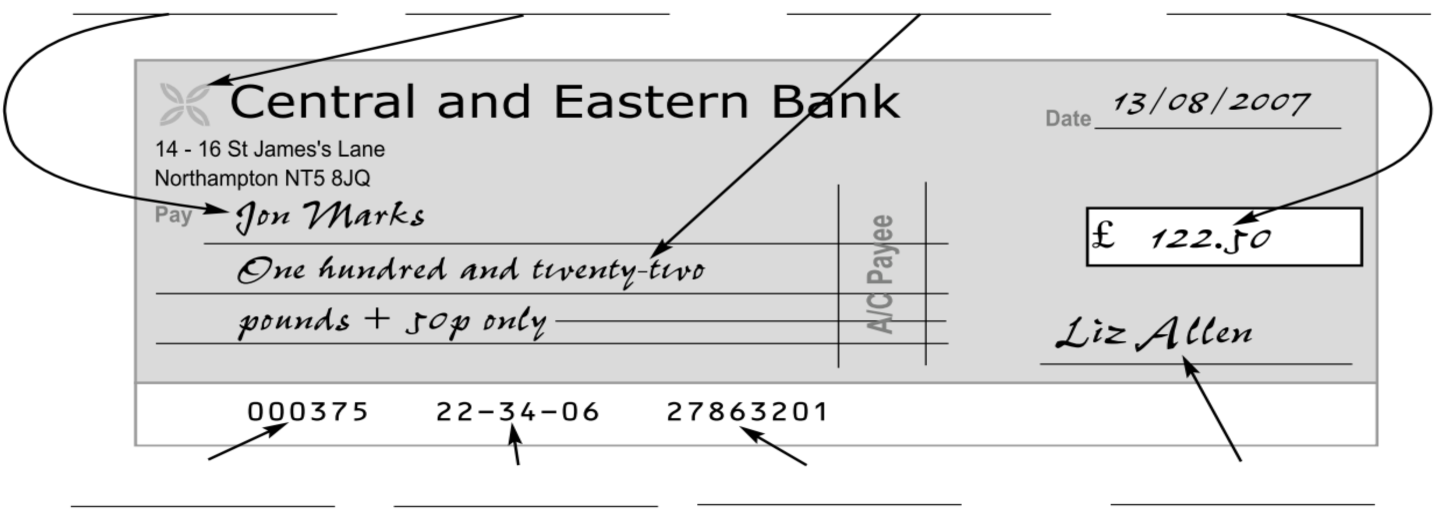
- What does a bank organization and operation depend on?
- What three types of banks do you know?
- What is the aim of development and commercial banks?
- What three essential functions have both types of banking?
- What systems do banks use to record the financial situation of the bank?
- What does the principle of double entry mean?
- What items constitute the expenses in the bank's profit and loss account?

2. **Match the definitions on the right to the words on the left. (There are TWO definitions you will not need):**

Word	**Definition**
1. stock	**a**. a small plastic card that lets you buy things
2. withdraw	**b.** to go out of business.
3. loan	**c**. the money you get every month for doing your job.
4. deposit	**d**. to put money in a bank.
5. interest	**e**. the extra money you get for giving a bank money.
6. circulation	**f.** the money you pay to a company in case something bad happens.
7. bond	**g**. place where you keep your money.
8. account	**h**. movement
9.bankrupt	**I.** document that shows that the government will pay back money it has lent from you
10. insurance	**J**. to take money out of an account
	K. money you borrow from a bank
	L. share of a company

3. ***Match the words with the parts of the cheque.***

account number • amount in figures • amount in words • cheque number
logo • payee • signature • sort code



4. **Fill in all the gaps :**

account - advice - aid - circulation - commercial - deposit - development - financial - individuals - insurance - interest - loan - raise - reserve - responsible - services - stocks - withdraw.

A bank is a place that works with money. If you want to save your money you can……………it in a bank……………and get……………for it. If you want to buy a house or a new car a bank offers you a……………….that you can pay back within months or years. Banks also give businesses the money they need to grow and expand.

Today's banks offer their customers a large range of……………….. They operate ATMs where you can………………money, even if the bank is closed. A credit card is a piece of plastic that allows you to buy things all over the world. Most banks give you……………..on how to get the most out of your savings. They deal with………………and bonds, some of them even offer……………policies.

There are different types of banks. ……………….banks are among the most important. Everyone can open an account or borrow money from them. Investment banks normally do not work with money from……………….. They help organizations and large businesses…………

money on the international……………….markets.

Central banks control the……………..of money in a certain area. The European Central Bank in Frankfurt is………………or the value of the Euro, the Federal…………..bank controls circulation and the value of the US dollar.

…………………banks help Third World countries not only with loans but also send………… workers and give them technical help.