

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Analysis of Bank Sector in Kazakhstan**

**Velimir Vassilev**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Velimir Vassilev

Business Administration

Thesis title

**Analysis of Bank Sector in Kazakhstan**

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### Objectives of thesis

The aim of the research topic is to propose measures improving the management of banking activities.

The Achievement of this goal contribute to the following tasks:

- explore the nature and specifics of the financial stability of the commercial bank;
- examine the problems of regulation and analysis of financial activity of commercial banks in the Republic of Kazakhstan;
- Consider international experience of financial stability management of the commercial bank.

### Methodology

Research Methods

- 1.Content analysis.
- 2.SWOT-analysis.
- 3.Basic statistical methods.
- 4.PEST-analysis.
- 5.Comparison.

**The proposed extent of the thesis**

40 pages

**Keywords**

Banks, commercial banks, Kazakhstan, infrastructure of banking system, JSC "Tsesnabank", financial crisis

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**Recommended information sources**

Cooper R. and John A. (n.d.). Microeconomics. Pub Date: 2011 ISBN: 978-1-4533132-8-2

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Y.V Matveev and M.E Konovalova, " The institutional structure and its role in the balance of social reproduction" Fundamental researches, №3. Pub Date: 2009

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## **Declaration**

I declare that I have worked on my bachelor thesis titled "Analysis of Bank Sector in Kazakhstan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 14<sup>th</sup> of March 2017

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## **Acknowledgement**

I would like to thank everyone who supported me during this long way, especially to my friends and family. Also, I'm very thankful to my supervisor Ing. Tomáš Maier for great guidance and his time spending on my thesis.

# **Analýza bankovního sektoru v Kazachstánu**

## **Souhrn**

Vytvoření stabilní a efektivní bankovní infrastruktury je nesmírně obtížný úkol dalšího prohlubování reform v Kazachstánských bankách.

V dnešním trhu a za dnešních hospodářských podmínek v Kazachstánu, otázky posouzení finanční stability komerčních bankách, je obtížné finanční situaci kazašských komerčních bank a nutnost zvýšení investic do ekonomiky do jisté míry může zhoršit problém a přeměnit ho na jedny z nejvíce relevantně teoretických a praktických problémů národního hospodářství.

Cílem práce je zlepšit metodické přístupy k analýze finančního stavu a vývoji komerčních bank a doporučit jejich implementaci pro trvale udržitelný rozvoj.

Práce se skládá z úvodu, tří kapitol, praktické části, závěru, seznamu referencí a aplikací. Praktická část se skládá z hodnocení současného stavu bankovního sektoru v Kazachstánu a posuzování komerční banky JSC «Tsesnabank» pomocí systému CAMEL. Výsledky práce a závěry jsou znázorněny grafy, obrázky a tabulkami.

**Klíčová slova:** Banky, komerční banky, Kazachstán, infrastruktura bankovního systému, JSC "Tsesnabank", finanční krize, CAMEL systém, krize

# **Analysis of Bank Sector in Kazakhstan**

## **Summary**

Creating a stable and efficient banking infrastructure is an extremely difficult task of further deepening reforms in Kazakhstan banks.

In today's market and economic conditions in Kazakhstan the assessment issues of commercial bank's financial stability, difficult financial situation of Kazakh commercial banks and necessity to expand investment in the economy to some extent can aggravate the problem and turn it into one of the most relevant theoretical and practical problems of the national economy.

The aim of the research is to improve the methodological approaches to the analysis of commercial bank's financial condition and development of recommendations for their implementation in the sustainable development of commercial banks.

The thesis consists of an introduction, three chapters, practical part, conclusion, list of references and application. The practical part consists of assessment the current state of the banking sector in Kazakhstan and assessment of commercial bank JSC «Tsesnabank» using the CAMEL system. The provisions of the thesis and the conclusions are illustrated by graphs, figures and tables.

**Keywords:** Banks, commercial banks, Kazakhstan, infrastructure of banking system, JSC "Tsesnabank", financial crisis, CAMEL System, crisis

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# 1 Introduction

Creating a stable and efficient banking infrastructure is an extremely difficult task of further deepening reforms in Kazakhstan banks. The development of the banking system in other countries and the practice of foreign banks determines the formation of the domestic banking system, brings it closer to international standards. Achieving the world-class by Kazakhstan banks - is strengthening of the confidence of the foreign partners in relation to our country.

In today's market and economic conditions in Kazakhstan the assessment issues of commercial bank's financial stability, difficult financial situation of Kazakh commercial banks and necessity to expand investment in the economy to some extent can aggravate the problem and turn it into one of the most relevant theoretical and practical problems of the national economy. Kazakhstan banking sector is still in the post-crisis state. Despite economic growth and favorable monetary policy, analysts remained concerned about value of assets and quality of capital of most banks.

In general, the banking market is still characterized by limited purchasing power demand from borrowers for loans denominated mainly in demand from borrowers on consumer credit, more moderate demand from the non-financial sector, as well as the limited long-term funding, and low quality of the loan portfolio. Conservative lending policy on the part of large banks in relation to the corporate sector and the aggressive policy by some medium and small banks in the more profitable segments of the lending is not enough helps to further enhance the credit market as a whole. Banks continue to assess high risk of the corporate sector, demanding much in their lending, focusing more on consumer credit.

The main factors affecting the state of the banking market, are: a new round of competition among banks, change in the structure of funding of banks, as well as the continued abnormally high level of problem loans.

Basically, there is increased competition among small banks, foreign banks and banks with cheaper access to funding sources. If we talk about the structure of funding, then now the majority of banks attract short and not quite cheap funds in the domestic market. The existing surplus of liquidity in some banks has little effect on the growth of credit to the economy.

This is due to small terms of funding, and for lending to corporate clients and individuals need to be more "long" money. The high level of bad debts in the portfolios of some banks limits the possibilities for their further development. The level of "bad" debts of banks in Kazakhstan ranges from 0 to 70%.

Proceeding from the above-described current conditions of the banking market, it need to be more in-depth study on the financial stability and reliability of commercial banks, in particular the applicability of the complex financial analysis methods in the Kazakh banking practice. The current situation in the banking market presents fundamentally new requirements for the analysis of financial condition, management decisions based on the analysis, the organization of work with clients and building an effective system of bank management.

The extent of the problem elaboration. Analysts are not quite thoroughly developed questions of financial analysis in commercial banks. Researches of prominent Russian scientists in the field of economic analysis have been devoted to this problem: Bakanov M.I., Endovitsky D.A., Efimova O.V., Kondrakov N.P., Paly V.F., Petrova V.I., Savitskaya G.V., Saifulin P.C., Sokolov Y.V., Sheremet A.D. and others.

Significant progress in the development of financial management and financial analysis have well-known foreign scientists such as J. K. Van Horn., J. Mossin., M. Scholes, J. Foster, S. Frost, K. Heddervik, E. Helfert, Ch. Horngren and in banking management - E. Gill, R. Cotter, J. Sinkey etc.

Among foreign economists who develop issues for evaluating and management of the bank's financial condition, are distinguished authors such as the E. Gill, John. F. Sinkey, Peter S. Rose and several others. It should be noted that the possibility of the effective application of international developments in the local practice depends primarily on the completeness of the records conditions of Kazakhstan banks.

The value of the financial analysis for the banking system according to the research scientists is a priority. In Kazakhstan, there is an incomplete application of methods of analysis of the banking system. Improvement of Kazakhstan's banking sector in the context of globalization is relevant at this stage of development of commercial banks in the country.

Theoretical and methodological basis of the research were the scientific works of foreign authors, theoretical and practical studies and expert advices in the field of financial analysis of commercial banks, legislation and regulations of the Government of Kazakhstan, internal regulatory guidance documents, regulations, instructions of the National Bank of Kazakhstan, regulating commercial activities banks.

Volume and structure of the work determine the relevance of the problem, its practical significance, purpose and logic of research.

The thesis consists of an introduction, three chapters, practical part, conclusion, list of references and application. The provisions of the thesis and the conclusions are illustrated by graphs, figures and tables.

## **2 Objectives and Methodology**

### **2.1 Objectives of the thesis**

The aim of the research is to improve the methodological approaches to the analysis of commercial bank's financial condition and development of recommendations for their implementation in the sustainable development of commercial banks.

Achievement of this goal contribute to the following tasks:

- to explore the nature and specifics of the financial stability of the commercial bank;
- examine the state of the banking system in crisis conditions;
- to consider international experience managing the financial stability of the commercial bank;
- to evaluate the current state of Kazakhstan banking sector;
- to evaluate the financial condition of JSC «Tsesnabank»;
- to consider the stability of the state regulation of commercial banks in Kazakhstan;
- to examine the problems of regulation and analysis of financial activity of commercial banks in Kazakhstan.

The subject of the research is theoretical and practical aspects of the financial position and stable operation of commercial banks.

Object of the study is a commercial bank in Kazakhstan - JSC «Tsesnabank».

### **2.2 Methodology**

As a result of research, analysis and systematization of the materials was used a complex of economic research methods: analytical, graphical, comparative and coefficient analysis. Information and empirical base of the research: were the official reporting data of Kazakhstan NB materials, materials of scientific and practical conferences, monographic study of foreign scientists.

SWOT analysis is one of the most effective methods of strategic planning and will be used to get a clear assessment of strengths and weaknesses and the situation as a whole in the selected bank.

Another important analysis will also be used in the evaluation of JSC «Tsesnabank». CAMEL method is an effective instrument of banking supervision and is intended for the detection and early warning of problems in a credit institution.

CAMEL methodology has a hierarchical structure, which implies the division of the overall reliability of the bank on 5 main components:

1) Capital adequacy.

Assessment of capital adequacy includes a set of core and additional indicators.

Among the main indicators are: core capital adequacy ratio and aggregate adequacy capital ratio (basic and supplementary), formulas (1-2):

$$K_1 = \frac{\textit{Core capital}}{\textit{Risk - weighted assets}} * 100\% \quad (1)$$

$$K_2 = \frac{\textit{Total capital}}{\textit{Risk - weighed assets}} * 100\% \quad (2)$$

2) Asset quality.

Estimation of asset quality is carried out on the basis of determining the degree of risk of individual groups of assets, and the calculation of a number of core and additional indicators. The main indicator is the ratio of total risk assets to capital of the bank.

The absolute value of the aggregate risk (AR) is determined by formula (3)

$$AR = \textit{Non-standard assets} * 0.2 + \textit{Doubtful assets} * 0.5 + \textit{Loss assets} * 1.0 \quad (3)$$

The main indicator that determines the quality of the assets, defined by the ratio of the absolute magnitude of the risk for all assets and off balance sheet items to the basic capital of the bank, plus reserves to cover credit losses. (4)

$$\textit{Quality of assets} = \frac{AR}{K} * 100 \quad (4)$$

3) Management

Management on the CAMEL system is estimated the last, because the quality of bank management finds direct expression in the level of liquidity and profitability of the bank, the state of his assets and capital adequacy. Therefore, a preliminary rating assessment of

management corresponds to the average rating assessment of all other components of the bank's reliability.

#### 4) Earnings;

In order to assess the bank's profitability level is used a number of indicators. As the main was chosen the profitability coefficient, which is calculated using the formula (5):

$$C_p = \frac{\text{Net profit after tax payment}}{\text{Average size of assets}} \quad (5)$$

#### 5) Liquidity;

Rating liquidity estimation on the CAMEL system does not use the criterion levels for liquidity indicators; five-point assessment of liquidity is based entirely on the findings arising from analysis of real conditions. These conclusions, as a rule, are based on a study of tendencies in change of relevant indicators and comparing the actual performance with the average for the homogeneous group.

Each component is estimated at five-point scale (1 - healthy, 2 - satisfactory, 3 - moderate, 4 - critical and 5 - unsatisfactory), and the final figure is calculated on the basis of their values.

## **3 Literature Review**

### **3.1 Essence of the banking system**

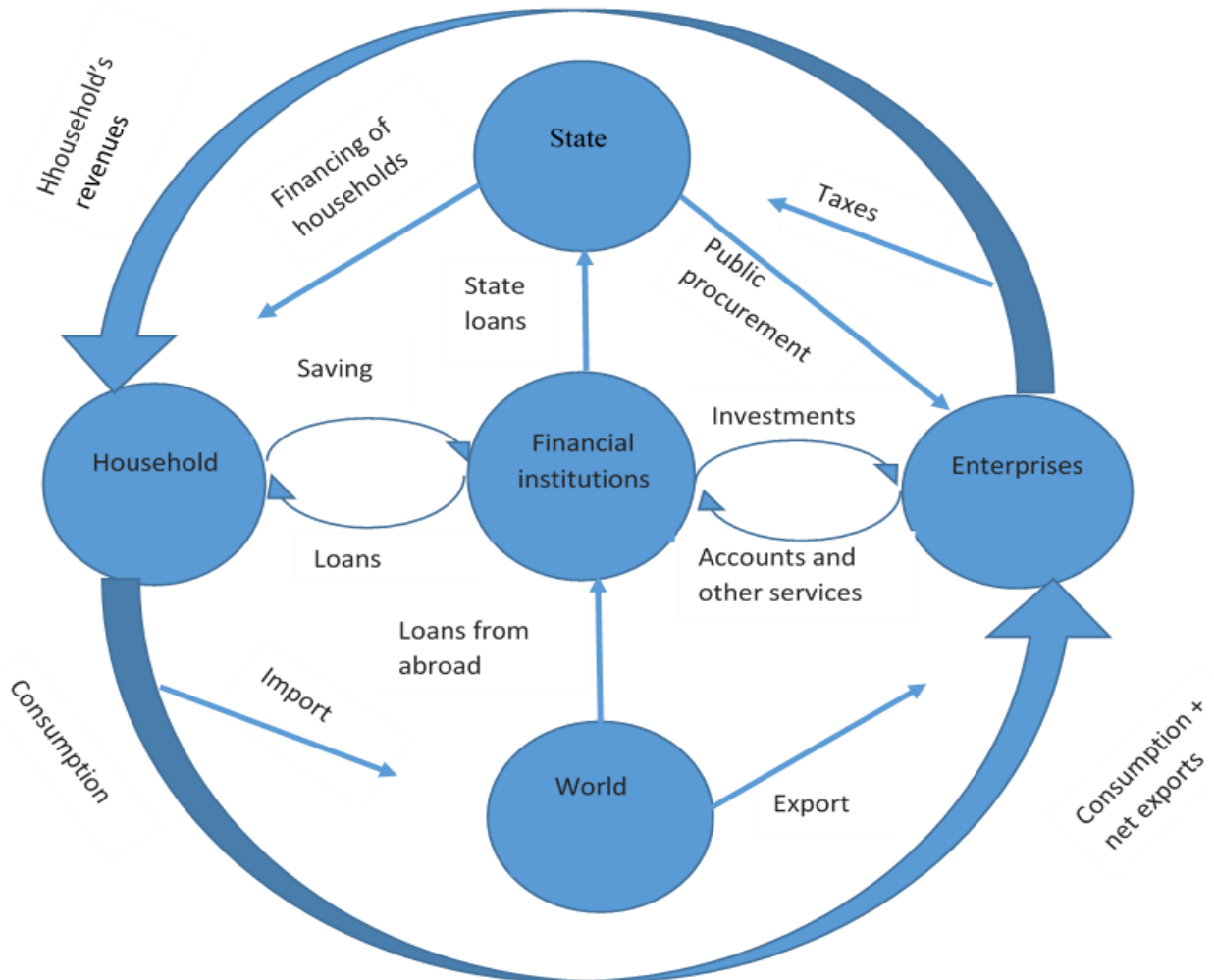
The banking system is directly or indirectly affects all levels of the socio-economic activities. Nowadays, the most common direction of thinking in macroeconomics is monetarism, which is associated with the work of the outstanding economist Milton Friedman. The state represented by banking institutions affects the intensity of the circulation of money in the economy by various methods. The intensity of the circulation of money determines the level of price stability (Inflation). Ways to control the money supply in the country can range from changes in interest rates before the "infusion" of money by issuing a «cheap» loans. Depending on the state, the efficiency of the same measures may vary greatly.

For a clear understanding of the object of study of this thesis, first of all, it is necessary to characterize the notion of the banking system. Today there is no clear definition of the banking system in the framework of institutional and structural approach, which could negatively affect its study in this thesis.

The banking system is an organized structure, which functions under existing regulatory models that provide consistency of economic interaction of its elements. The banking system consists of several units. In the case of uncoordinated actions or underdevelopment of the system components, is suffering the whole economy.

In this study banking systems are discussed in terms of transformation from one state to another. Transformation the banking system means changing of the system components. In this study deals with the changes that lead to an improvement in the properties of the banking mechanism as a whole. In turn, the stability and cohesion of the banking mechanism will increase the efficiency of the rest of the economy. Figure 1 is a block diagram of a simplified model of macroeconomic linkages between financial institutions and the economy of the country, consisting of households, enterprises, government, and the international community. One of the main functions of banks is the accumulation and disposition of funds of households by investing in companies, the acquisition of various debt and investing available funds in other financial instruments (for example, issuing loans to individuals).

1 Fig. The simplest representation of capital flows in the economy



Source: compiled by the author on the basis of [1].

Institutional theory (institutionalism) more intense pushes macroeconomic and microeconomic theory, as usual neoclassical socio-economic categories of relations are considered, taking into account a more complete spectrum. D. North defines institutions as "rules of the game" in a society or, more formally, the restrictive framework created by man, which organize the relationships between people. Therefore, they set the structure of motives of human interaction whether in politics, the social sphere and economy. Institutional changes



determine how societies evolve over time, and thus are a key to understanding historical changes. [2]

In his work "The character and social structure" in 1953 C.W Mills (., See [3]) distinguishes five institutions, which are the backbone of society, namely:

1. Political Institute, "consisting of the institutions in which people acquire, hold or influence the distribution of power and authority within social structures";
2. Economic Institute, "consisting of the institutions by which people organize work, resources and technical tools to produce and distribute goods and services."
3. Military Institute "is made up of institutions in which people organize legitimate violence and control its use."
4. Family Institute, "regulating sex, birth and socialization of children."
5. Religious Institute "is one of those institutions in which people organize and manage the collective worship of God or Gods, usually on a regular basis and in certain places."

Definitions C.W Mills institutes allows to understand the relationship between all components of the activity of a society and to assess in what perspective should be considered banking system. Moreover, the definition which clearly indicates the branches under the influence of the institutional transformation banking systems phenomenon defined below. In this perspective, it becomes obvious that the exclusive consideration of the components of the banking system, as defined in the law, is not sufficient and should be complemented by examination of other elements.

*Institutional structure* - is the construction of the elements that make up a particular institute and specifying its properties. Institutional structure is an ordered set of institutes that create matrices of economic behavior and determine the constraints for economic entities, which are formed as part of a system of economic activity coordination. In addition, the institutional structure can also be considered as an institutional order in which there is a set of interrelated institutes. [4]

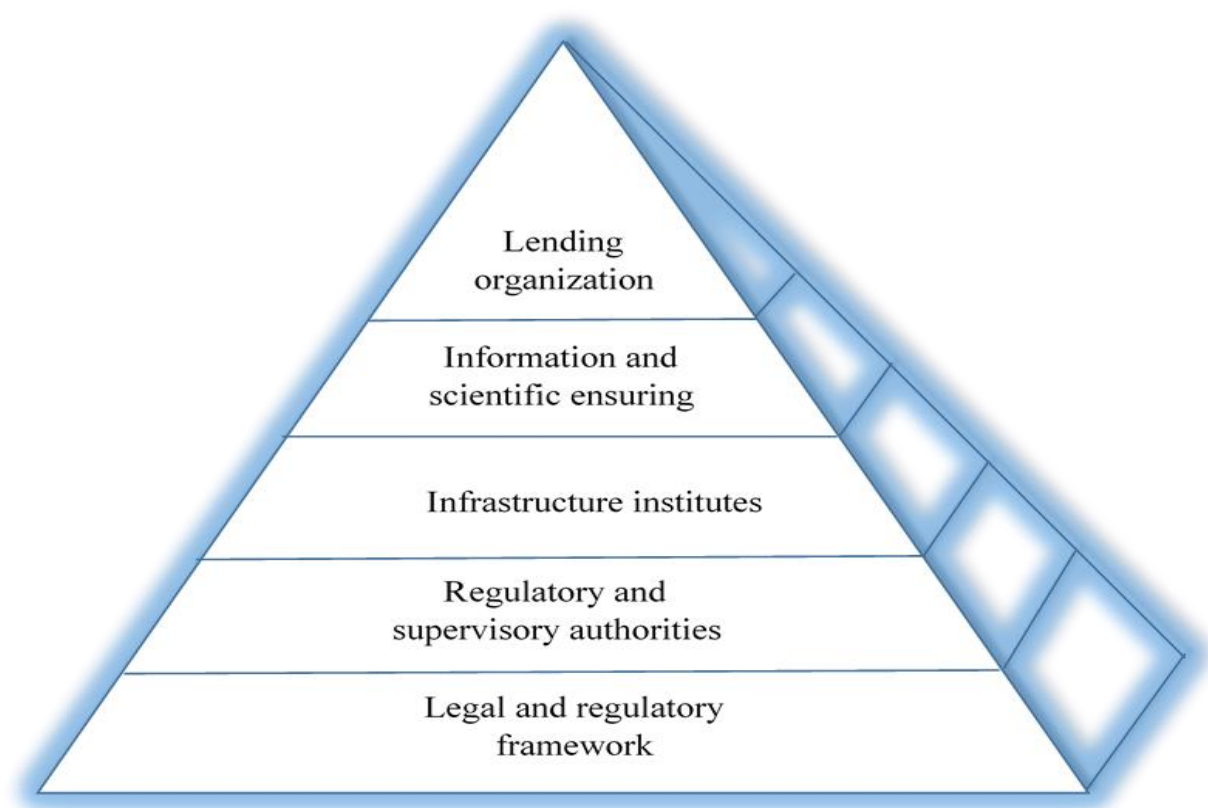
The development of the theory of institutionalism allows today to allocate other types of institutes that integrate certain social phenomena together. The banking system includes elements that are responsible for the functioning of banks in the economy. Nowadays it is possible to distinguish five basic elements of the banking system, which are represented in a pyramidal form below:

- lending organizations and specialized financial and lending institutions;

- information and scientific ensuring;
- infrastructure institutes;
- regulatory and supervisory authorities;
- legal and regulatory framework.

To evaluate the interdependencies, the banking system is represented as a pyramid (see. Fig. 2). As can be seen from the figure, the elements of the banking system are interdependent. Lending organizations and specialized financial and lending institutions depend on the rest of the allocated elements of the system. But their work is not possible without adequate information ensuring and infrastructure. In turn, the lack of infrastructure poses a threat to the existence of information ensuring, because without it is not possible to provide any operation of information exchange. Scientific support allows to achieve the development of all components of the pyramid, but it is impossible without certain existing foundations (eg, legal and regulatory framework and the existing regulatory system, supervision and so on, which is aimed at optimizing their activities). Regulators and supervisors limit and streamline the activities of the components of the banking system. Finally, the legal and regulatory framework allows all elements of the banking system to act for the good of society, which, in turn, directs the components of the Law.

2 Fig. Elements of the banking system



Source: compiled by the author

The banking system is closely linked to financial markets, minerals market, precious metals, insurance and estate markets. In the EU system of markets is determined by norms and laws at the state level and at the level of the Directives of the European Union. In France, for example, a regulated market is determined by law "Financial and monetary code ", Article L421-2: the law of the French Republic adopted Decree №2013-79 from 25.01.2013 (fr. Code monétaire et financier Article L421-2).

**The infrastructure** of the banking system allows it to operate in an uninterrupted manner and freely implement the missions of vital activity. It is important element as well as all the other elements of the banking system. The Infrastructure consists of elements of different character, including payment systems. Its role in ensuring the unity of the banking system and to ensure coherence in the work of the banking system with the other institutions

of society. Comparative analysis of the infrastructure of Kazakhstan and the EU can afford to reveal priority development path for not only the Kazakh banking system, but also for external components that are an obstacle in the development of infrastructure of Kazakhstan's banking system.

One of the most important components of banking institutions is banking **infrastructure**. Banking infrastructure are companies, agencies, communication facility, educational and scientific institutions that provide vital functions of the banks, their information and personnel support. Today one of the main components of infrastructure include payment systems, automated teller machines, consulting agencies, professional organizations and recruitment agencies.

**Information ensuring** is also the basis of the banking system. Its absence basically makes it impossible for the development of financial markets, reduces the proportion of bank transactions at optimal price and consequently alienates society institutions from the state of equilibrium. The high degree of information ensuring of the banking system allows banks to make transactions and act considering a large number of criteria and, as a result, to maintain a balance between the components of the financial markets, taking into account the social aspects of its activities.

**Scientific ensuring** is a stimulus for the development of the banking system. The activities of the scientific community are setting the pace in the development of the banking system and allows to assess the feasibility of certain reforms and transformations. Scientific ensuring by definition is the result of impartial actions of the scientific community, whose aim to ensure optimal development of institutes of society. The lack of scientific support for the banking system reduces the quality of development in the key of activities for the benefit of society. Ensuring the stability of the scientific community is the key to the development of banking services, reducing costs of banks in the various operations and the achievement of optimum banks in the various spheres of activity.

**Legal and regulatory framework** in the banking system limits and regulates the activities of banks. The state, acting on behalf of its people for the benefit of its population, is interested in the fact that banking had a certain framework, the absence of which could lead to unfortunate consequences for the whole society (uncontrolled bankruptcy of banks, an increase in leverage by banks, the failure of the last of its direct missions and obligations, etc.).

Other elements or institutes, as noted, is not used to describe the banking system, as their impact in terms of the institutional theory is not as strong as the effect of the above items.

### **3.2 The need to ensure the stability of the banking system in the conditions of a systemic financial crisis**

The global financial crisis of 2007-2008. became a logical result of the first phase of globalization, which marks its transition to a qualitatively new state. It is obvious that "the global economic system has become a reality, and its laws and forms of development requires serious study." [6] And the main question that now the economists solve are how the banking system is guilty in deployment of the crisis and how the banking system is resistant to external shocks.

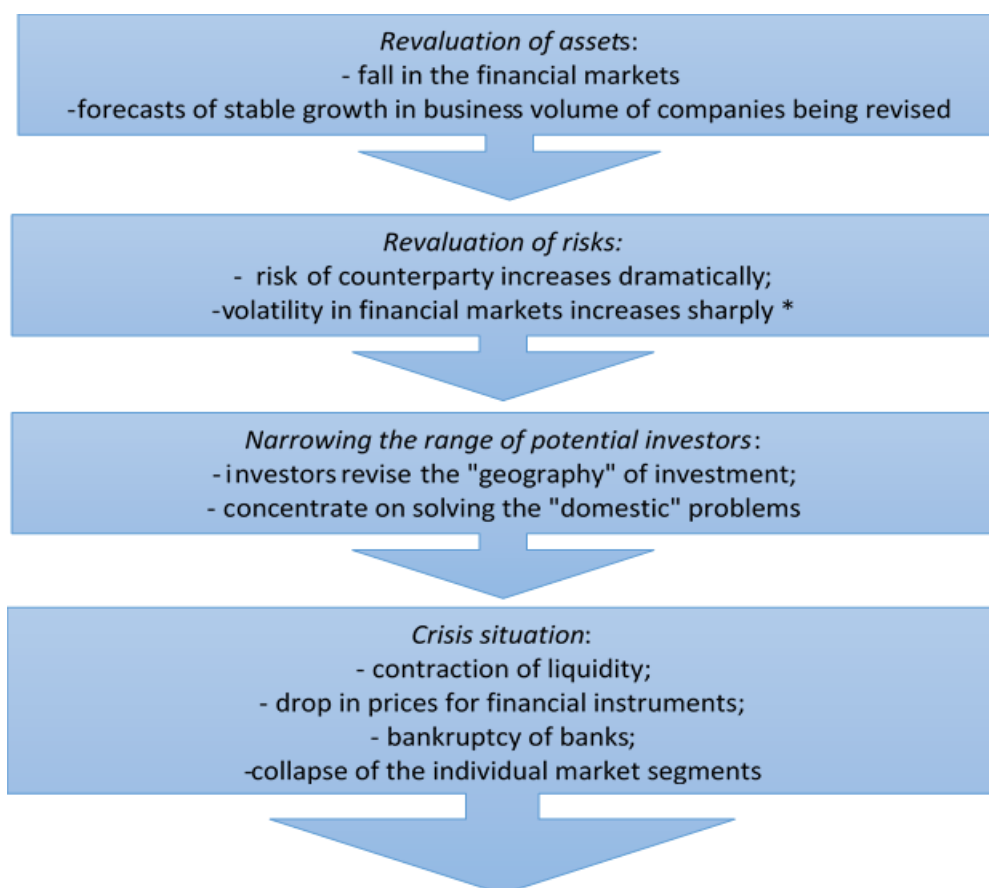
Considering the underlying causes of the crisis on the international financial market of 2007-2008., It should be noted that the starting point is not only the high-risk lending, i.e. the emission of risky financial instruments and the unreliability of borrowers on mortgage loans.

Manifestations of the global financial crisis were as follows:

- sharp decline in the liquidity of commercial banks;
- insolvency of investment banks;
- drop in major stock indexes and the expansion of their range of variation and instability;
- deterioration of the quality characteristics of the banks' assets, primarily mortgage-backed securities.

The development of the crisis in global financial markets in 2007-2008. can be represented as follows (Figure 3).

**3 Fig. The growth of the crisis situation on the international financial market in 2007-2008.**



\* Market is illiquid as a result of falling demand for long-term financial instruments and the risk premium growth

Yet shortly before entering a critical phase, the banking system of Kazakhstan was considered almost invulnerable and the bankruptcy of commercial banks - is unlikely. However, especially the banking system caused the biggest complaints from the standpoint of sustainability during the acute phase of the crisis in September 2008.

Before the crisis, it was considered that financial stability involves three main components:

- financial stability of each individual bank;
- price stability (the purchasing power of money);
- stability of the functioning of payment and settlement systems. [7]

It used to predominant the view that the solvency of individual banks is a necessary and sufficient condition for stability in the banking system as a whole (micro-approach to banking supervision). The global financial crisis has shown that this approach is too narrow and does not respond the prevailing conditions in the financial markets.

In unsustainable development model, all the differences in the level of development of the countries and accordingly, in the banking system are tied to the economy. Thus, this is a

one-dimensional (economic) measurement underlies the division of countries into developed, developing and transition countries. In this sense, the model of unsustainable development can rightfully be called the market or economic model for the type of criteria (indicators) that underpin this classification. [8]

In model of sustainable development are taken into account the indicators of social development and environmental security along with the economic indicators. However, any system of indicators can only give a rough estimate of the situation at the current time.

The extreme instability of the market system, even in a developed liberal economy as well as the absence of endogenous compensators and stabilizers do not allow the commodity system to take a starting position, which for some reason is out of balance position. Therefore, attempts are made to find a stabilizing influence via monetary arrangements that began to be introduced in the macroeconomic dynamic models of market systems (developed by the American economist John. Tobin (1965) and M. Sidrauski (1967) Methodological equations of economic growth).

However, despite the different approaches in the theories of macroeconomic stabilization of economic development, common to them is that a stable and crisis-free economic growth is impossible without the formation of the system of state influence on market processes, an important component of which is the financial and credit policy of the state, the conductor of which is the banking system in a broad sense.

The imbalance of economic development and the instability of certain economies are compounded by speculative activities of banks, which leads to crises, not only at the level of national banking systems, but also at the international level. An additional catalyst of imbalances becomes the entry of national economies in the international division of labor. In the 1990s developing economies occasionally felt the detrimental impact of financial crises. It may be noted that in the years 1992-1993 the price shock in the currency market had a negative impact on the economy of European countries such as Italy, Norway, Sweden, Denmark and the UK. In 1994-1995. financial crisis hit Mexico, Argentina and Brazil (so-called tequila crisis). It is noteworthy that to this period directly relates the first financial crisis in the history of modern Russia - the so-called "Black Tuesday" October 11, 1994, when for one trading day the ruble collapsed by 22%.

November 15, 1993 by Decree of Nursultan Nazarbayev the Head of State the national currency «Tenge» was introduced. In 1993, the average monthly inflation rate was 30.1%, the decline in real GDP - 9.2%. Under these conditions, the Government and National Bank have identified as priorities the gradual reduction in inflation and at the same time curbing of

decline in production. In 1995, there was a slowdown in economic recession and a significant reduction in the rate of inflation in the economy of Kazakhstan, which was achieved with the help of instruments of monetary policy. These measures allowed to curb the hyperinflation: inflation decreased from 2265% in 1993 to 60% in 1995.

In subsequent years, globalization has led to the fact that the financial ties between countries were becoming stronger in process of rapprochement of industrial structures of their industries, leading to a leveling of business cycles. Specific weight of countries developing their markets in the global economy was growing rapidly. In 2000-2007 the share of such countries, taking into account purchasing power parity amounted to almost 40%, which is a quarter more than in 1980.

One of the factors of strengthening structural imbalances was the formation of basic macroeconomic relations at transnational level. Throughout the 2000s, the savings of households in advanced economies have been zero or even negative, while China's GDP, for example, the share of savings reached almost 50%, allowing the country to make large-scale investments in Western economies. [9]

Since September 2008 and up to 2010 the situation on the financial markets of developed countries characterized by strong tensions. 2010-2011 can be characterized as a period of relative stability, economists were talking about the exit of a systemic crisis, but the situation in the Eurozone, particularly in Greece and then Spain and Italy, do not give the right to assert about the optimistic scenario development. [10] Global problems accompanied by structural problems inside of emerging markets: divergence of currencies in the balances of borrowers, poor risk management, corporate losses in transactions with derivative financial instruments in foreign currency and sharp increase in loan interest rates. Even borrowers with high credit ratings felt the tightening of credit conditions, due to necessity of changing of funding sources structure in favor of its own funds, and the collapse of the securitization system. Attempts of the governing bodies to correct the situation were undermined by destructive feedback on a global scale, and by rapidly deteriorating economic forecasts. [11]

Some lending institutions had planned the interventions to reduce the proportion of borrowed funds in balances, one of which involves the sale of assets in the Eurozone, US and countries with emerging markets. Moreover, stagnation in the Eurozone and the United States as well as deceleration of economic growth in China may cause a fall in prices for "black gold". The economic instability of this type contains the growth risk of global imbalances and the emergence of new crises in the financial markets. Currently, economists are talking about a new wave of a systemic financial crisis.



Logic of research allows to highlight some points that predetermined the current crisis.

The contradiction between cosmopolitanism of capital and sovereignty of the state. It should be noted that the idea of the social state requires a significant investment for social purposes, sometimes not allowing the state due to political and other conditions to respond quickly to changes in the financial situation by reducing social spending. Thus, the present crisis on the agenda handed down the problem of evolution from the social state to state partnership that gives rise to other mechanisms of interaction between government and business (based on partnerships).

Deregulation of the economy involves the creation of competitive institutions both domestically and globally. General Course in decision-making (international financial reporting standards, investment standards, etc.) It is necessary to define clear requirements for domestic institutional investors (global qualification, global community of experts (experts Social Responsibility Code), the global competitiveness of formation, financial spheres, etc.).

Changing the approaches to assessing the role of financial institutions. Obviously, in connection with the development of internet technologies in the banking business the money velocity has increased by several times, however, the channel of cash transfer and processing operations (financial intermediaries) could not be restructured in such a way to avoid delays in the transmission of monetary transactions and processing of array of monetary information. An important issue in this regard is the question of the nature of electronic money: who emits, regulates, controls, these flows, what are the risks and what is the role of the state in this process.

In this regard, the global financial system, as well as the local banking system could not cope with the new challenges, and the system went into resonance stage.

It is obvious that the financial integration contributes to strengthening of macroeconomic stability, efficient allocation of resources, development of entrepreneurship and innovation, but at the same time it acts as a conductor spread of financial crises.

Each financial crisis is characterized by its distribution channels and features, depending on the region of the dislocation of financial institutions and their level of development. In most cases, the crisis is transmitted from a certain "zero country" (where the crisis started) to all other countries. «Domino effect» occurs when the crisis spills over from one country to another, and they have an impact on the third country. Analogously, if the system of financial institutions is well developed and credit institutions are interconnected via

any local network (payment system, for example), then the crisis could spread fast enough and block the work of the banking system.

Table 1 provides an overview of foreign studies in which the authors examined the main factors and channels of crisis spreading. [12] The presented data shows that initially the channel of crisis spreading had trading nature, and only in the middle of 2000s, the channel of crisis spreading becomes purely financial. However, in all circumstances the first who lost reliability and disappeared from the business arena were credit institutions. Therefore, the main issue, which is on the agenda, is to ensure the sustainability of the national banking system and its individual elements to systemic crises that will inevitably arise during the development of civilization.

**1 Table Research of financial channels of crisis spreading**

<b>Author</b>	<b>Period</b>	<b>Country</b>	<b>Channel and factor</b>	<b>Evaluation method</b>	<b>Main conclusions</b>
Eichengreen B. and others	1959-1963	20 industrially developed countries	Macroeconomic factors	Probit model	Defined trading channel and macroeconomic similarities
Edwards S.	1992-1998	Argentina, Chile, Mexico	Short-term interest rates, macroeconomic factors	GARCH	Detected a sequence of "infestation" of countries based on the trade channel
Ahluwalia M. S	1990-2000	19 countries in Latin America, East Asia, etc.	Macroeconomic factors	OLS-model	Were studied episodes of Latin American, Asian and Russian crises, identified trade and financial channels of crisis spreading
Cerra V. and Saxena S. C.	1985-1998	Indonesia	Financial Market Indicators	OLS-model and Probit model	financial channel of crisis spreading appeared the most significant
Nagayasu J.	1996-1998	Thailand and the Philippines	Interest rates and stock market index	Granger Causality, VAR	Crisis as a result of the integration of the banks
Haile F.,	1960-1998	57 developed	Macroeconomic	Probit model	The reason of

Pozo S.		and developing countries	factors, market and financial channels, indicators of early warning of crisis situations		crisis spread was the trade channel, can be proved the importance of the crisis early warning indicators in the economy
Mironova Y.	1998	25 in Eastern Europe and CIS	Macroeconomic factors, trade channel	Probit model	Revealed the importance of the trading channel, determined the ways of dissemination of the crisis in the CIS countries
Dutttagupta R. and Cashin P	1990-2005	50 developed and developing countries	Macroeconomic factors, financial and trade channels	Logit model	In terms of importance the most significant were: inflation, the level of international foreign exchange reserves, the rate of private sector credit growth, bank channel "overflow" of the crisis

Concerning Kazakhstan, insofar as «in daily Kazakh life the markets are incredibly strong and savage, insofar as the fear of losing reputation or fear of law enforcement agencies and fear of other disciplining ethical mechanisms of a market economy is far weaker than in the West, or even in the majority of countries with economies in transition» it can be concluded that the government's efforts to ensure the stability of the banking system should be systemic and affect not only the financial sector but also the modernization of the industrial sector as a whole.

This requires to take the following measures [13];

- establish mechanisms:

a) that compensate for the risks of commercial banks for crediting of the productive sector;

b) that stimulate the entry of banks into the investment projects not only as a creditor but also as co-founders and co-investors (at the stage before the loan repayment), who share the risks of borrowers and get additional revenue as the co-owners of the business;

- Directly or indirectly limit the maximum size of bank margins on standard credit transactions (for example, to impose a tax on the net interest income above a certain level), where banks act solely as secured creditors. The banking margin above 4-5%, is not only economically unjustified, but also slows down the process of modernization, especially the investment activity in the relatively low-profit sectors of the economy.

- legally to limit the growth of tariffs for goods and services of housing and utilities monopolies, transport monopolies which are incorporated in the federal budget by overall economic level of inflation;

- to begin to invest the accumulated state revenues from the sale of raw materials in the creation of high-tech industrial assets inside the country;

- Actively to promote public-private partnerships (including the various cluster associations) and to attract a wide range of economic subjects for implementation of long-term projects, especially infrastructure and projects of territory development. Without this, the modernization of manufacturing sector will not become systemic.

Moreover, the nature of the banking system now assumes the character of a public-private banking system, which is largely explained by the fact that the support during the crisis was provided to banks with state participation. Proportion of bank structure data grows in the banking services market

There are several concerns:

- 1) as a rule, state agencies are less mobile and less prone to innovation;
- 2) having a guarantee in the face of the state, the data structure weakly struggling for the client, and does not provide sufficiently diversified range of services that can provide private banks;
- 3) for small and medium enterprises, it is easier to work with a small bank in which the simplified credit granting procedure. [14]

If consider the results of the crises faced by the Kazakh banking system over the past twenty years, it may be concluded that it is important to ensure the stability of the banking system to periodic outflows of capital in the form of a well-functioning system of maintain liquidity. Necessity of high professionalism of top management as the monetary authorities in general, also in credit institutions, in particular at the regional level. Based on the foregoing it

seems appropriate to consider the concept of stability of the banking system and opportunities of its adapting to constantly changing environmental conditions.

### **3.3 Basel standards in the banking sector of the Republic of Kazakhstan**

The development in 1988 by the Basel Committee on Banking Supervision of the first agreement on capital adequacy (Basel I) was a response from the banking community and the regulatory authorities in case of major losses and bankruptcies of banks, hedge funds and institutional investors, observed in 70-80-s. [19].

Initially, the agreement was considered as recommendation, but becomes a mandatory standard for the G-10 countries since 1992. At the moment, to the Basel I totally or partially joined more than 100 countries.

The main purpose of Basel I is to restrict credit risk (losses from defaulting of borrowers, and so on) through the development of a number of supervisory principles. The main one is to determine the capital adequacy.

Basel I agreement has had a significant positive impact on the operation of banks. Moreover, the recommendations originally designed for large international banks have now become acceptable for the world banking system as a whole. Some banks and other credit institutions, regardless of their size, structure, complexity of the credit operations and features of risk began to consider these recommendations.

However, the banking crises of the 1990s. has shown, that the agreement on capital adequacy needs to be further developed, refined and improved.

Since 1993, the Basel I was subjected to revision in view of criticism of the banking community and opinions of some economists, and in 2004 were published updated framework approaches (Basel II).

Basel II consists of three main components: minimum requirements for the capital structure, supervisory process and market discipline.

Basel II includes advanced credit risk interpretation and detailing of borrowers by type (government, central banks, commercial banks and individual borrowers, and so on).

In order to distribute coefficients in groups apply the ratings developed by the leading rating agencies.

The second component - the supervisory process. Considered The basic principles of the supervisory process, risk management, transparency and accountability to the supervisory authorities in the application to the banking risks.

The interpretations of interest rate risk in the banking portfolio, credit risk (stress testing, definition of default, residual risk, and credit risk concentrations), operational risk, the growth of cross-border relations and cooperation, and securitization are part of the supervisory process.

The third component - market discipline, which complements the minimum capital requirements and the supervisory process. Market discipline is stimulated through the establishment of a number of standards of information transparency of banks, standards of their relations with the oversight bodies and the outside world.

Based on the lessons of the financial crisis of 2008-2009, Basel Committee on Banking Supervision (BCBS) has begun to review its requirements for capital adequacy of banks. The result was a system of requirements for capital adequacy and liquidity, dubbed Basel III (Basel III) and endorsed by the «Group of Twenty» at the summit in Seoul in November 2010.

By Committee were increased disclosure requirements, was enhanced supervision of risk management, as well as were increased the minimum values to the size of the bank's own capital. For the first time by Committee have been adopted two new indicators in terms of liquidity risk assessment and mitigation measures. Measures for liquidity risk management are reflected in the document «Basel III: International framework for liquidity risk measurement, standards and monitoring». [20].

In order to monitor the quantitative and qualitative characteristics of liquidity, by the Basel Committee were introduced short-term liquidity indicators (LCR) and the net stable funding ratio (NSFR), which are necessary to ensure the sustainability and preservation of the stability of both individual commercial bank, and the banking system as a whole in each country.

The banking system of the Republic of Kazakhstan also suffered huge losses during the global crisis and today still restores the financial stability of the banking system from the effects of the crisis.

In this regard, since January 1, 2015 were introduced international standards of Basel III in the commercial banks of Kazakhstan, including indicators for liquidity risk measurement.

Taking into account the new recommendations of the Basel Committee, since 2013 by Committee (Agency) were introduced:

- implementation of new standard of core capital adequacy, the value of which will amount to 4.5% in view of conservation buffer - 7%;

-the value of equity capital adequacy K1-2 will be 6%, considering conservation buffer - 8.5%;

-the value of equity capital adequacy K2 will be 8%, considering conservation buffer 10.5%;

-establishment of uniform capital adequacy ratios for all banks, regardless of the presence or absence of the bank large participant of an individual, a bank holding company or parent company;

- the use of buffer capital (conservation – 2.5%, countercyclical from 0% to 2.5%, system - k2 + 2%);

Thus, adequacy ratio of the Bank's equity (k1-1) will be transferred from the prudential norms to the early response measures with the expected norm of not less than 5%.

Similar requirements for capital adequacy will be installed on a consolidated basis, i.e. in relation to banking conglomerates.

Thus, the National Bank of the Republic of Kazakhstan is taking the long-awaited systemic steps to restore order on the market. In 2014 was adopted the "Concept of development of the financial sector of the Republic of Kazakhstan", in which marked the ways of development of Kazakh banks. Measures for the development of the financial sector will focus on the following areas. First one - the implementation of Basel-3 standard in the period 2014-2019. Secondly - improving the efficiency of the distribution of credit resources. In particular, the decline in consumer credit risk.

## 4 Analysis of financial stability of commercial banks in Kazakhstan.

### 4.1 Key indicators of the banking sector of Kazakhstan on 1 January 2017 (Changes for 2016)

33 banks represent the banking sector in Kazakhstan, 15 banks of which are with foreign participation, including 11 subsidiary banks.

#### Assets and the loan portfolio.

As of 1 January 2017, assets of Kazakhstan banks amounted to 25. 557 bln. KZT (at the beginning of 2016 –23. 780 bln. KZT), and increased for 2016 by 7.5%.

The major asset category in the total banking assets is loan portfolio (56.9% of total banking assets excluding loss reserves (provisions)) amounted to 15.511 bln. KZT (at the beginning of 2016–15. 554 bln.KZT). During the period for 2016 loan portfolio decreased by 0.3%. (Graph 1)

**Graph 1. Dynamics of assets and loan portfolio of the banking sector of Kazakhstan**



Note: based on NB of Kazakhstan data



**Corporate loans** comprised to 6.554 bln. KZT with the share of 42.3% of the loan portfolio (at the beginning of 2016 – 7. 307 bln.KZT or 47.0% of the loan portfolio), and decreased for 10.3%.

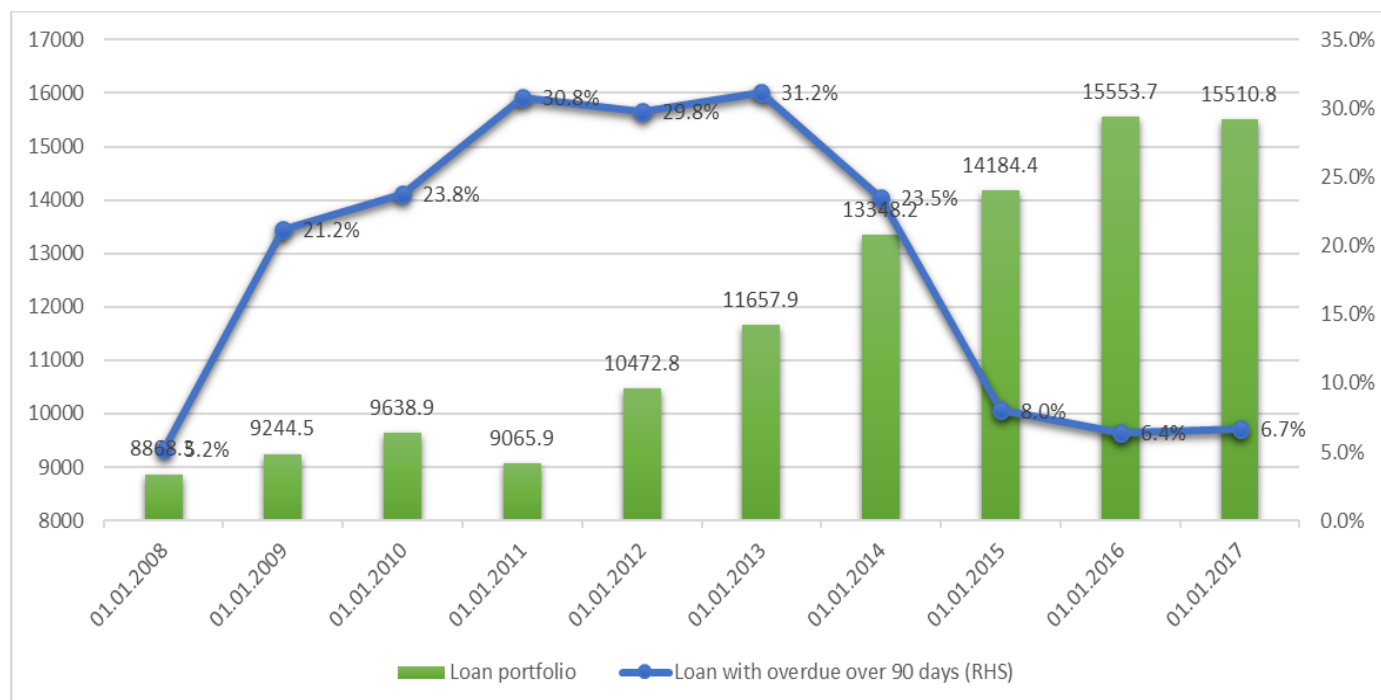
**Loans to individuals** constituted to 3.767 bln. KZT with the share of 24.3% of the loan portfolio (at the beginning of 2016 – 3. 873 billion or 24.9% of the loan portfolio), and decreased for 2016 by 2.7%.

**Retail loans** accounted to 2.548 bln.KZT with the share of 16.4% of the loan portfolio (at the beginning of 2016–2.623 bln.KZT or 16.9% of the loan portfolio), and decreased for 2016 by 2.9%.

**Loans to SMEs** comprised to 5, 002 bln.KZT with the share of 32.2% of the loan portfolio (at the beginning of 2016 –4, 242 bln.KZT or 27.3% of the loan portfolio), and increased for 2016 by 17.9%.

**NPL - non-performing loans (loans with overdue of more than 90 days)** amounted to 1.042 bln. KZT or 6.7% of the loan portfolio (at the beginning of 2016 was 1.237 bln.KZT or 8.0% of the loan portfolio). (Graph 2)

**Graph 2 Dynamics of the loan portfolio, non-performing loans over 90 days in the banking sector of Kazakhstan**



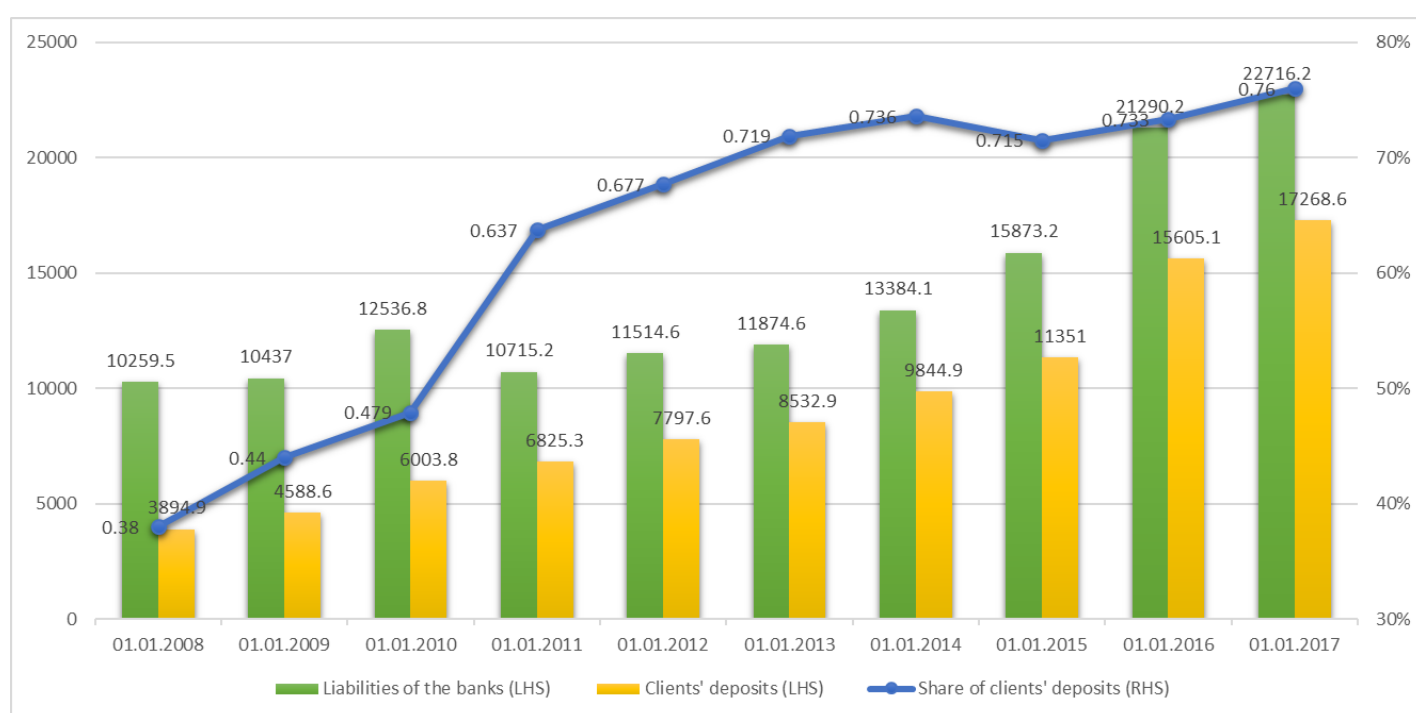
Note: based on NB of Kazakhstan data

**Provisions for loan portfolio** formed to 1.640 bln. KZT or 10.6% of the loan portfolio (at the beginning of 2016 was 1.648 bln. KZT or 10.6% of the loan portfolio).

**Liabilities and deposits.**

**Liabilities of Kazakhstan banks** comprised to 22.716 bln. KZT (at the beginning of 2016 –21.290 bln.KZT), and increased for 2016 by 6.7%. The largest share in total liabilities of banks relates to customer deposits – 76.0% and outstanding securities – 7.8%. Liabilities to non-residents of the Republic of Kazakhstan amounted to 1.688 bln.KZT or 7.4% to total liabilities. (Graph 3)

**Graph 3. Dynamics of liabilities of the banking sector of Kazakhstan**



Note: based on NB of Kazakhstan data

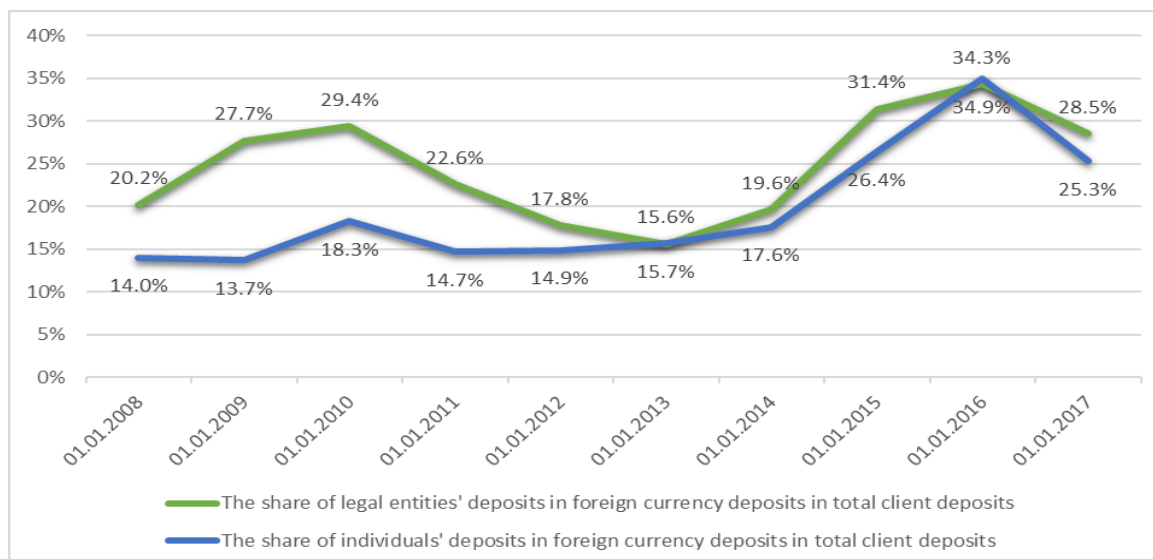
**Customer deposits** comprised to 17.269 bln.KZT or 76.0% of total liabilities (at the beginning of 2016 amounted to 15.605 bln. KZT or 73.3% of total liabilities), and increased by 10.7% for 2016.

**Corporate deposits** amounted to 9.361 bln.KZT or 54.2% of customer deposits (8.719 bln. KZT or 55.9% of customer deposits at the beginning of 2016), and increased by 7.4% since the beginning of 2016. The share of deposits of legal entities in foreign currency decreased from 61.5% at the beginning of the year to 46.6% on the reporting date.

**Deposits of individuals** amounted to 7.908 bln.KZT or 45.8% of customer deposits (at the beginning of 2016 – 6.886 bln. KZT or 44.1% of customer deposits), and increased by

14.8% for 2016. The share of household deposits in foreign currency decreased from 79.1% at the beginning of the year to 62.2% at the reporting date. (Graph 4)

**Graph 4. Dynamics of deposits in foreign currency of the banking sector of Kazakhstan**



Note: based on NB of Kazakhstan data

### **Capital adequacy.**

**Regulatory capital** amounted to 3.226 bln.KZT.

Capital adequacy ratios are following: k1-1–13.7%; K1-2 – 14.3%; k2 – 16.3%.

**Highly liquid assets** amounted to 6.501 bln.KZT or 25.4% of total assets (beginning of 2016–5.043 bln. KZT), 28.9% increase for 2016.

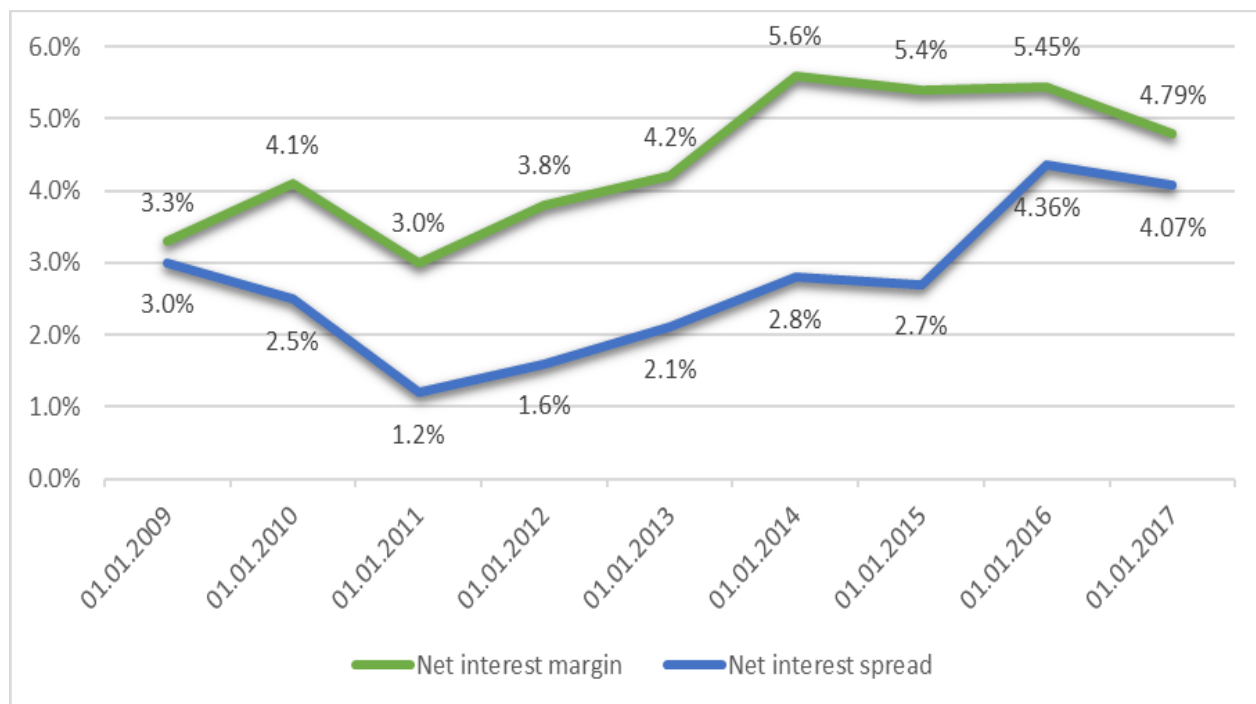
### **Profitability of the banking sector.**

Net income of the banking sector amounted to 398 bln.KZT.

Return on Assets(ROA) is 1.61% (1.15% at the same date last year);

Return on equity (ROE) is 14.94% (9.36% at the same date last year). (Graph 5)

**Graph 5. Profitability of the banking sector of Kazakhstan**



Note: based on NB of Kazakhstan data

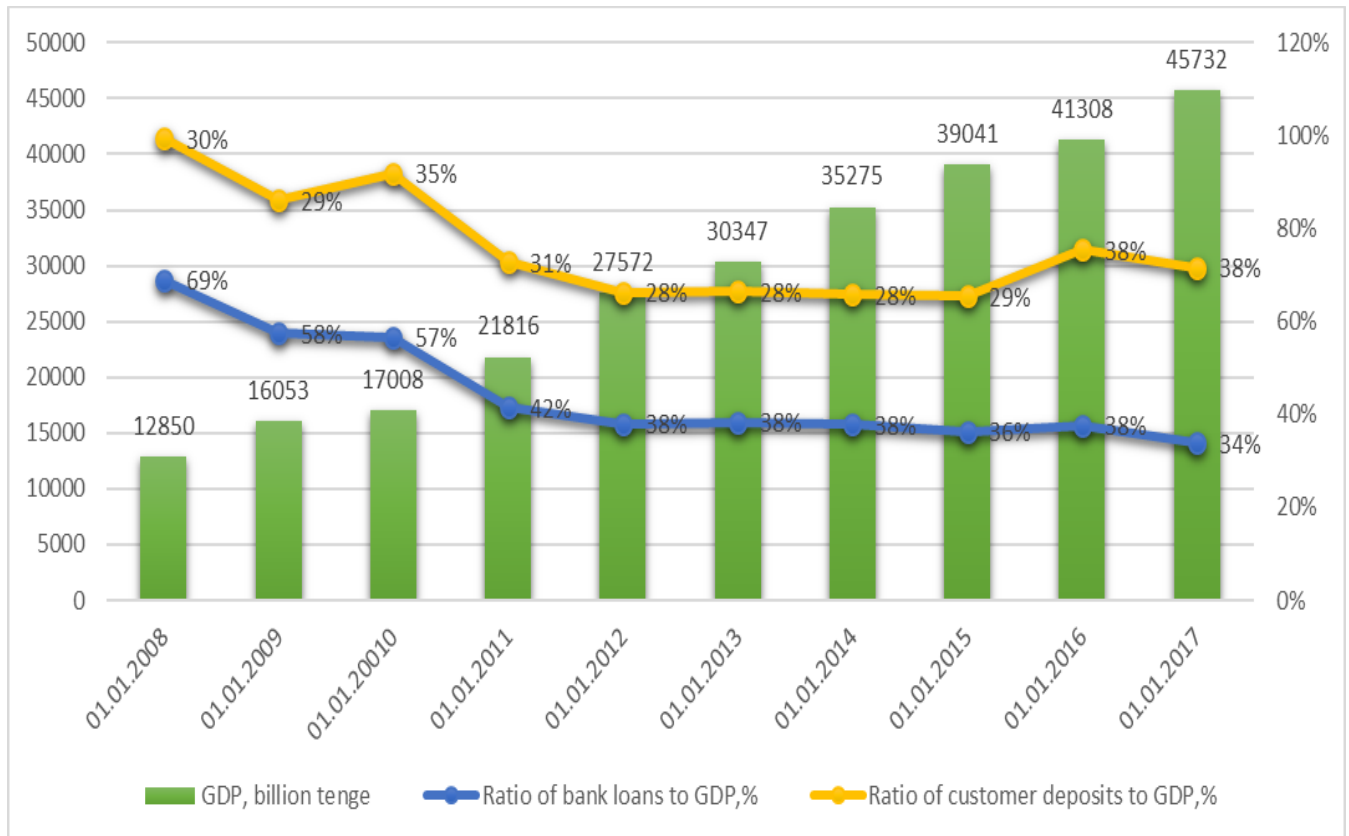
**Macroeconomic indicators.**

At the reporting date the share of assets banking sector to GDP is 57.6%;

The share of the loan portfolio in GDP – 34.0%;

The share of customer deposits to GDP – 37.9%. (Graph 6)

**Graph 6. The role of the banking sector in Kazakhstan economy**



Note: based on NB of Kazakhstan data

**Concentration in the banking industry.**

The share of the 5 largest banks in total assets of banks amounted to 58.2%;

The share of the 5 largest banks in the total loan portfolio of banks – 60.6%;

The share of the 5 largest banks in total customer deposits – 58.2%.

Another key macroeconomic indicator is the ratio of loans given to the private sector to GDP. The plans of the Government of Kazakhstan together with the National Bank are to bring this figure to 60% by 2020. While the share of loans in GDP has been declining for the past 7 years, this indicator showing a certain growth since the end of 2014 and as of the second half of 2016 does not exceed 38%. In 2016-2017 most banks in Kazakhstan will continue to feel difficulties associated with deteriorating asset quality due to difficulties in servicing the debt for most borrowers, because the process of restoring the economic situation in the country may take a longer time.

In general, the activities of banks in 2016 can be characterized as follows:

- 1) Low appetite for lending due to increased risk in the economy and the possibility of sending these funds to a less risky but highly profitable monetary market;
- 2) Growth of deposits remained quite stable;
- 3) Yield of the banking sector was high;
- 4) Quality of the loan portfolio has not undergone significant changes.

In 2016, banks preferred to invest in more liquid and less risky instruments, namely in monetary and credit market and the stock market. All because of the high uncertainty in the economy and high profitability in the monetary and stock markets. Loans for the year 2016 decreased by 0.3%. Presumably, in 2017, the growth in lending will be much more than in the past.

As part of the Anti-crisis plan for 2016 - 2018, measures are envisaged to increase lending to the economy by second-tier banks and ensuring the stability of the financial sector, by conducting stress testing of banks, assessing risk assets, determining an adequate level of capital adequacy at the level of the whole system and / or for individual banks. It is planned to gradually introduce liquidity coverage ratios and net stable funding to improve the stability of banks to stressful situations, as well as to encourage the use of more stable sources of funding. The conducted policy will promote further development, strengthening of stability, and increase of competitiveness of the banking sector in Kazakhstan.

## **4.2 Analysis of the financial condition of JSC «Tsesnabank»**

JSC «Tsesnabank» is a universal financial institution, which ensure customers' needs for banking services with using the latest technology and professional service. The main principles of activity of JSC "Tsesnabank" are maintaining the balance of interests of customers and the bank, an individual approach to each client and openness to constructive dialogue.

Today, one of the competitive advantages of JSC «Tsesnabank» is that this is the first commercial bank in Kazakhstan with its head office in Astana was founded in 1992 in Tselinograd. In 21 years, the Bank has become a recognizable, stable and dynamically developing financial institution.

The main reason for growth of assets, loan portfolio and equity capital of «Tsesnabank» was the change in the composition of top management, which chose an aggressive policy aimed at further build competitive advantage is not due to reduction of

resource allocation rates and the cost of providing services, but by expediting the adoption of solutions to improve the quality and speed of services.

As of 01.01.2017, the Bank's equity capital, calculated in accordance with the requirements of the supervisory body, was 93 534 million tenge, including the tier 1 capital which is 56 002 million tenge and the tier 2 capital is 37 532 million tenge. During the period 2014-2016 there is a tendency of growth of the Bank's capital. Thus, during 2015 the bank's own capital increased by 24.2 billion tenge or 52.6% mainly due to tier 2 capital growth, which is associated with an increase in subordinated bonds from 12.9 billion to 27.9 billion (Table 2).

**2 Table .The dynamics of equity capital of JSC «Tsesnabank» for 2014-2016, million tenge**

Name	2014	2015	deviation from 2014	2016	deviation from 2015
Authorized capital	30 000	35 040	5 040	41 340	6 300
Additional capital	1.770	1.770	0.000	1.770	0.000
Undistributed net income of previous years	0	0	0	3 532	3 532
Funds and reserves of previous years	2 844	6 990	4 146	11 983	4 993
Intangible assets	54.0	133.2	79.2	177.6	44.4
Loss of current year	2 291	2 264	-27	677	-1 587
Total tier 1 capital	30 500	39 634	9 134	56 002	16 368
Total tier 2 capital	15 520	30 592	15 072	37 532	6 940
Total equity	46 020	70 226	24 206	93 534	23 307
Assets	438 140	618 221	180 082	923 679	305 457
Total assets weighted by credit risk	339 017	517 822	178 806	761 834	244 012

Note - compiled by the author on the basis of [15]

However, in 2016 the growth of the Bank's equity from 70.2 billion to 93.5 billion provided by the tier 1 capital increase, namely the replenishment of the share capital by 6.3 billion tenge through the issuance of common shares and the net income of the current period and in previous years in the amount of 8.5 billion tenge.

In the opinion of the supervisory authorities, the actual value of the adequacy of commercial banks' capital is the most important characteristic of the financial condition, and thus the quality of their management.

The value of the bank's capital adequacy ratio K1 should be at least 0.05, and the value of Bank capital adequacy ratio K2 shall not be less than 0.1.

Conducted analysis demonstrates the calculation of equity growth "Tsesnabank" during the period 2014-2016 and marked decrease in the dynamics of capital ratios.

Reducing these factors indicates that growth in the total assets and the assets weighted by risk, well ahead of the growth of the capital of the 1 and 2 tiers (Table 3).

**3 Table. Analysis of the implementation of prudential standards of JSC «Tsesnabank» for 2014-2016**

Name	2014 г	2015	Deviation from 2014	2016	deviation from 2015
Capital adequacy ratio (k1-1)	7.0%	6.4%	-0.5%	6.1%	-0.3%
Capital adequacy ratio (k1-2)	7.8%	6.7%	-1.2%	6.6%	-0.1%
Capital adequacy ratio (k1-1) (k2)	11.8%	11.8 %	0.0%	11.0%	-0.9%

Commercial banks should comply with regulations such as liquidity ratios: k4; k4-1; k4-2; k4-3.

During the period 2014-2016 the liquidity ratios calculated in accordance with the rules on the implementation of prudential norms, which are stored in permissible limits.

As of January 1, 2017, the current liquidity ratio k4 increased by 0.246 compared to 2015, but the downward trend also observed.

So k4-1 liquidity ratio decreased from 9.979 to 4.698, the liquidity ratio k4-3 from 3.856 to 3.719 (Table 4).



**4 Table. The dynamics of liquidity ratios of JSC «Tsesnabank»**

Name	2014	2015	deviation from 2014	2016	deviation from 2015
current liquidity ratio k4	0.538	0.485	-0.054	0.731	0.246
liquidity ratio k4-1	6.479	9.979	3.500	4.698	-5.281
liquidity ratio k4-2	3.054	4.754	1.700	5.459	0.705
liquidity ratio k4-3	2.596	3.856	1.260	3.719	-0.137

However, the implementation of standards established by the supervisory authority, is not enough to fully reflect the stability and reliability of commercial banks.

Many well-known analysts believe that the main factor that characterizes the bank's financial condition, is the financial stability coefficient, which is equal to the ratio of equity and long-term liabilities to total assets. Data for the calculation of financial stability coefficient is the balance sheet. So, as of 01.01.17 coefficient of financial stability was at the level of 0.65, which is more in comparison with the year 2014 by 0.12. (Table 5).

**5 Table. Dynamics of financial stability coefficient for 2014-2016**

Name	2014	2015	deviation	2016	deviation
Long-term credits and loans, billion tenge	195.9	394.0	198.1	615.4	221.4
Equity, billion tenge	34.7	50.7	16.0	72.8	22.1
Assets, billion tenge	438.1	618.4	180.3	923.7	305.3
Financial stability ratio	0.53	0.72	0.19	0.75	0.03

According to the data Table 5, since the beginning of 2014 there is a growth tendency of financial stability ratio from 0.53 to 0.75, the highest increase was recorded in 2015. The main reason for the increase of financial stability coefficient is ahead of the curve of assets growth above the long-term loans and equity.

If the value of the coefficient ranges from 0.8-0.9 and has a positive trend, the financial position of the bank is stable. Recommended value is not less than 0.75. If the value is lower than recommended, it is disturbing for the stability of the bank.

As shown in Table 6, in comparison with the same period of 2015, the coefficient ratio of operating expenses to operating income (CIR) increased from 44.0% to 44.7% (the norm is not more than 65%).

**6 Table. Dynamics of profitability and efficiency ratios JSC «Tsesnabank» for 2014-2016**

Name of coefficients	2014г.	2015г.	2016 г.
ROA (net income / assets)	1.23%	2.05%	0.46%
ROE (net income / equity)	14.87%	24.43%	5.72%
interest margin (Net income% / assets %)	4.39%	6.07%	5.37%
CIR (Cost to income ratio) operating expenses / operating income	59.5%	44.0%	44.7%
Net fee and commission income / Operating income	31.6%	19.8%	16.4%
Net income from dealing / Operating income	8.7%	9.6%	10.7%

Note - compiled by the author on the basis of [15]

As of January 1, 2017, return on assets coefficient ROA amounts to 0.46%, which is lower than in 2015 by 1.6%, in 2014 by 0.8%. ROE decreased significantly at the reporting date from 24.43% to 5.72%.

Thus, there is a tendency of growth in net income for the periods under consideration, but the rate of growth of assets and equity greatly outpaced net income growth (Table 7).

**7 Table. Dynamics of revenue growth and expense JSC «Tsesnabank» for 2014-2016 million tenge**

Name	2014	2015	Growth (%)	2016	growth
Interest income	31 548	53 959	22 411 (71%)	74 060	20 101 (37%)
Interest expenses	19 274	27 739	8 465 (44%)	40 939	13 200 (48%)
Net interest income	12 273	26 220	13 947 (114%)	33 121	6 901 (26%)
Fee and commission income	6 905	8 169	1264 (18%)	9 052	883 (11%)
Commission expenses	203	366	163 (80%)	549	182 (50%)
Net fee and commission income	6 702	7 803	1101(16%)	8 503	701 (9%)
Net income from dealing operations	1 843	3 784	1 941(105%)	5 567	1 783 (47%)
Other operating income	437	1 652	1 215(278%)	4 794	3 141 (190%)
Total non-interest income	8 982	13 239	4 257 (47%)	18 864	5 625 (42%)

Total operating income	21 255	39 459	18 204 (86%)	51 986	12 527 (32%)
Total operating expenses	12 635	17 354	4 719 (37%)	23 246	5 892 (34%)
Total net operating result	8 620	22 105	13 485 (156%)	28 740	6 635 (30%)
Expenses on creation of reserves	3 124	7 946	4 822 (154%)	9 099	1 153 (15%)
Net income (loss) before of taxation.	5 495	14 158	8 663 (158%)	19 640	5 482 (39%)
Corporate income tax	1 349	2 903	1554 (115%)	3 630	726 (25%)
Net income (loss) after taxation	4 146	11 255	7 109 (171%)	16 010	4 755 (42%)

The financial result of the Bank's net income by the end of 2016 amounted to 16 010 million tenge, for 2015 was received an income of \$ 11 255 million tenge, in 2014 - 4146 million tenge.

The increase in net income for 2016 compared with the same period in 2015 observed due to growth in the following items:

- 1) in interest income by 20 101 million tenge;
- 2) in other operating income by 3 141million tenge. This increase is related to the income earned from the sale and disposal of fixed assets and a penalty (fine);
- 3) in dealing operations by 1 783 million. tenge, which is associated with an increase in the volume of foreign exchange transactions.

CAMEL method is an effective instrument of banking supervision and is intended for the detection and early warning of problems in a credit institution.

CAMEL methodology has a hierarchical structure, which implies the division of the overall reliability of the bank on 5 main components:

- 1) Capital adequacy;
- 2) Asset quality;
- 3) Management;
- 4) Earnings;
- 5) Liquidity; [16]

Each component is estimated at five-point scale (1 - healthy, 2 - satisfactory, 3 - moderate, 4 - critical and 5 - unsatisfactory), and the final figure is calculated on the basis of their values.

Thus, the estimate of each component performed in a number of more "small" components.

Let's consider on the example of «Tsesnabank».

Capital adequacy

The most simplistic criterion of capital adequacy in the past was considered matching his volume of 5% of total assets. Assessment of capital adequacy includes a set of core and additional indicators. Among the main indicators are: core capital adequacy ratio and aggregate adequacy capital ratio (basic and supplementary), formulas (6-7):

$$K_1 = \frac{\text{Core capital}}{\text{Risk - weighed assets}} \cdot 100\% \quad (6)$$

$$K_2 = \frac{\text{Total capital}}{\text{Risk - weighed assets}} \cdot 100\% \quad (7)$$

$$K_1 = \frac{41\,340}{761\,834} * 100\% = 5.43\%$$

$$K_2 = \frac{72\,819,2}{(761\,834)} * 100\% = 9.5\%$$

The final conclusion of the capital adequacy is based on, first, the comparison of the actual levels of coefficients of basic indicators of the country and, secondly, the assessment of asset quality analysis results.

Scale of the bank's capital adequacy assessment is given in Table 8

**8 Table. Scale of assessment for capital adequacy in CAMEL system**

Rating	Core capital adequacy ratio	Total capital adequacy ratio
1 (strong)	much more than 4%	much more than 8%
2 (satisfactory)	significantly exceeds 4%	significantly exceeds 8%
3 (mediocre)	At the level 4%	At the level 8%
4 (critical)	slightly lower 4%	slightly lower 8%
5 (unsatisfactory)	Much lower 4%	Much lower 8%

Note - compiled by the author on the basis of [17]

As can be seen from Table 8, "Tsesnabank" has a satisfactory capital adequacy rating.

Asset quality

Estimation of asset quality is carried out on the basis of determining the degree of risk of individual groups of assets, and the calculation of a number of core and additional indicators. The main indicator is the ratio of total risk assets to capital of the bank. To calculate the value of total risk assets (the numerator of the main index) on CAMEL system, all of the assets bearing the risk, are divided into 5 groups: good, special mention, substandard, doubtful, loss-making.

Thus last 3 group assigned to the assets undergoing negative ranking, the following risk factors are set on them: 20%, 50%, 100%. [21]

The absolute value of the aggregate risk (AR) is determined by formula (8)

$$AR = \text{Non-standard assets} * 0.2 + \text{Doubtful assets} * 0.5 + \text{Loss assets} * 1.0 \quad (8)$$

The main indicator that determines the quality of the assets, defined by the ratio of the absolute magnitude of the risk for all assets and off balance sheet items to the basic capital of the bank, plus reserves to cover credit losses. (9)

$$\text{Quality of assets} = \frac{AR}{K} * 100 \quad (9)$$

The main indicator that determines the quality of the assets according to data of JSC "Tsesnabank" will be equal to:

$$\frac{95\,673,7}{761\,834} * 100 = 12.5\%$$

The level of this indicator is estimated on the basis of experimentally derived standards (Table 9)

The data table shows that the quality of the assets on the CAMEL system "Tsesnabank" can be estimated at the level of 2 i.e. satisfactory.

**9 Table. Scale of assessment of the quality of bank assets on the CAMEL system**

Rating	The level of the main indicator of the quality of assets, %
1 (strong)	up to 5
2 (satisfactory)	between 5 and 15
3 (mediocre)	between 15 and 30
4 (critical)	between 30 and 50
5 (unsatisfactory)	over 50

Note - compiled by the author on the basis of [17]

### Earnings

In order to assess the bank's profitability level is used a number of indicators. As the main was chosen the profitability coefficient, which is calculated using the formula (10):

$$C_p = \frac{\text{Net profit after tax payment}}{\text{Average size of assets}} \quad (10)$$

Where  $C_p$  = profitability coefficient

For "Tsesnabank" profitability coefficient in 2016 will be:

$$C_p = \frac{16\,010}{923678.8} * 100 = 1.73\%$$

Scale of assessment of profitability of the Bank are presented in Table 10

**10 Table. Scale of assessment of the bank's profitability on the CAMEL system**

Rating	Criteria
1 (strong)	assets profitability coefficient above 1%; bank has sufficient reserves to cover losses on loans; profit does not depend on the bank operations and extraordinary income.
2(satisfactory)	asset profitability coefficient ranges from 0.75 to 1%; revenue is static and is sufficient to create reserves to cover losses on loans.
3 (mediocre)	asset profitability coefficient ranges from 0.5 to 0.75%; formed a negative trend of coefficient, high interest rates on dividends, insufficient reserve to cover for losses on loans.
4 (critical)	profitability of the assets is estimated in the range of 0.25 to 0.5%; are typical unpredictable fluctuations of income; negative trend coefficient; the lack of reserve to cover losses on loans; profit is not sufficient for the growth of equity.
5 (unsatisfactory)	Net losses or negligible profits. Coefficient of profitability below 0.25%. This situation threatens the bank's ability to live.

Note - compiled by the author on the basis of [17]

Table 10 shows that on the scale of assessment of the bank's profitability on the CAMEL system, because the coefficient of assets profitability of JSC "Tsesnabank" amounted to 1.73%, the rating on this scale is strong.

### Liquidity

Since the bank's liquidity is dependent on many factors, lying in the field of formation of resources, and in the area of accommodation, for banks standard system of liquidity indicators is not established.

Rating liquidity estimation on the CAMEL system does not use the criterion levels for liquidity indicators; five-point assessment of liquidity is based entirely on the findings arising from analysis of real conditions. These conclusions, as a rule, are based on a study of tendencies in change of relevant indicators and comparing the actual performance with the average for the homogeneous group. [18]

The scale of the bank's liquidity assessment is presented in Table 11

**11 Table. Scale of assessment of the bank's liquidity on the CAMEL system**

Rating	Criteria
1 (strong)	There is more than sufficient liquid assets or free access to external sources.
2 (satisfactory)	Liquidity declines and borrowed funds grow. However, the bank's liquidity ratios above the average for homogeneous group banks.
3 (mediocre)	The volume of liquid assets is insufficient to cover the demand for liabilities and adequate satisfaction the credit needs of customers without increasing borrowed funds; the level of borrowed funds has reached or exceeded the optimal proportions.
4 (critical)	Liquidity ratios are well below accepted norms.
5 (unsatisfactory)	The bank's liquidity is so critical that in the future it will not be able to perform operations; It requires the adoption of urgent measures or financial assistance for the implementation by the bank its obligations and agreements.

Note - compiled by the author on the basis of [18]

According to JSC "Tsesnabank" it may be noted that the bank has more than sufficient liquid assets or free access to external sources, thus, according to CAMEL system, the bank has a rating of 1, i.e., strong.

#### Management quality

Management on the CAMEL system is estimated the last, because the quality of bank management finds direct expression in the level of liquidity and profitability of the bank, the state of his assets and capital adequacy. Therefore, a preliminary rating assessment of

management corresponds to the average rating assessment of all other components of the bank's reliability.

For a final conclusion about the level of management, takes into account the following factors:

- 1) competence, leadership ability and administrative work of bank management, including: qualifications and experience of bank leader, qualification and experience of middle and junior staff, quality of supervision of the bank's activities on the part of guidance, adequacy of personnel training and degree of promotion management;
- 2) compliance with of rules of conducting banking activities;
- 3) ability to plan and take responsibility for the risks assumed by the credit institution;
- 4) adequacy of the internal policy of the bank to the level of control over operations and risk;
- 5) response to the recommendations of the auditors and the supervisory authorities;
- 6) readiness of fulfill the objectives of the banking community;
- 7) adequacy of the Board of Directors (on the composition and functions);
- 8) adequacy of internal and external audits to the completeness and accuracy of reporting, and to ensuring the compliance with laws and regulatory norms.

The scale of assessment of the bank management quality is shown in Table 12.

Data specified in the table shows that "Tsesnabank" on the scale of assessment of the bank's management quality at the CAMEL rating system refers to a 1 (strong), because management (at all levels) effectively perform their duties in any situation and demonstrates the constant readiness to cope successfully with existing or unforeseen problems that may arise while perform the bank of their duties. All significant risks in the bank's activities are monitored and effectively controlled by the top management.

**12 Table. Scale of assessment of the bank's quality management on CAMEL system**

Rating	Criteria
1 (strong)	Management (at all levels) effectively performs their duties in any situation and demonstrates the constant readiness to cope successfully with existing or unforeseen problems that may arise as you complete the bank of its duties. All significant risks in the bank's activities are monitored and effectively controlled.



2 (satisfactory)	Despite the shortcomings in addressing some of the problems, the management is still competent and able to manage the bank prudently and carefully, sticking to generally accepted practices. Basically, at the same time significant risks are identified and controlled. In general, the administration is consistent with its duties and demonstrated satisfactory behavior in this situation.
3 (mediocre)	It is difficult for management of the Bank to perform its duties in this situation due to the lack of competence. For the head of the bank are typical the modest talents at the needs above the average, or the abilities are too low to operate the bank of this size and type. Such guidance can be reliable enough at the moment, but the negative traits of the bank's activity prevailing over positive factors and the ability of the administration to correct the situation in these conditions is lower than satisfactory. Challenges and risks taken by the bank, can be inadequately assessed and controlled.
4 (critical)	Management as a whole does not correspond to the nature of the duties performed by them. In most cases, the banks with such administration can be evaluated by mixed rating which indicates the vulnerability of the organization, often due to a critical level of capital asset quality, income or liquidity, or deterioration. Problems and significant risks are inadequately identified and controlled, it requires immediate action by the governing bodies of the bank to maintain its stability.
5 (unsatisfactory)	Demonstrated complete incompetence of the leadership. At the bank, there are serious violations of law and normative regulation. Significant risks and problems are not identified and are not controlled. In such cases, management must be strengthened or fully replaced.

Note - compiled by the author on the basis of [15]

SWOT analysis of JSC «Tsesnabank». is represented in Table 13.

Table 13 also shows that the main and most serious threats for JSC «Tsesnabank» from the external environment are:

- deterioration of the investment climate in the country;
- world financial crisis;
- strengthening of corporate interaction of banks-shareholders and pension funds;
- reduction in GDP growth rates.

In addition to the global financial crisis, inflation is also a big problem, which suddenly and dramatically soared due to several factors

**13 Table. SWOT analysis of JSC «Tsesnabank»**

Strength	Weakness
<ul style="list-style-type: none"> <li>- Accumulated long-term experience of successful work in the market;</li> <li>- Broad customer base in various regions of</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of decision-making speed, because of this long duration and complexity of procedures;</li> </ul>

<p>Kazakhstan;</p> <ul style="list-style-type: none"> <li>- Stable revenue structure of the bank;</li> <li>- Great resource of consumer confidence in the bank from various categories of customers;</li> <li>- Availability of necessary infrastructures (branches and other structural units).</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of labor productivity, its separation and specialization, which leads to the impossibility of saving;</li> <li>- Automation and use of manual labor in most cases are at a low level;</li> <li>- In some cases, the balance between risk control and the bank's profitability is excessively shifted towards avoidance of risks;</li> <li>- Moderate capitalization, considering high levels of concentration and rapid growth in assets;</li> <li>- Staff turnover.</li> </ul>
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> <li>- Economic growth in the country gives an opportunity to increase the income of organizations, which increases solvency, i.e. demand becomes solvent;</li> <li>- expected growth of the consumer lending market, including the consumer and mortgage market;</li> <li>- Increased demand for lending services.</li> </ul>	<ul style="list-style-type: none"> <li>- Decrease in the pace of development of the banking industry;</li> <li>- Strengthening of the financial crisis;</li> <li>- Decline of economic activity of banking services consumers;</li> <li>- Enlargement of competitors through merger will lead to the seizure of a large market share and to toughen competition;</li> <li>- Loss of customers due to deterioration of customer service or bank's image;</li> <li>- Instability of economic, tax and other legislation in Kazakhstan entails additional difficulties</li> </ul>

Note - compiled by the author

## 5 Conclusion

In a modern commercial bank, financial analysis of activities is not just an element of financial management, but its basis, because using analysis the internal regulation of the bank's activities is carried out. Analysis of the bank's activities in the management of a commercial bank and the increase in reliability and quality of management, determine the viability of both individual commercial banks and the banking system as a whole.

A system of methods is used in order to form an objective idea of the financial stability of a commercial bank, which can be conditionally divided into two blocks. The first block is aimed at presenting the quality of indicators of assets and liabilities as well as their liquidity. The second block is aimed at the formation of detailed indicators of the bank's stability, taking into account the reasons for the change in key indicators and the specification of the factors of financial activity.

To obtain a comprehensive rating of the bank's work, it is required to analyze a wide

range of regulated reporting documents and conduct additional research in a credit institution. If, for one reason or another, this cannot be done, then reliable results can be achieved only on the basis of more complex statistical models.

The conducted research allows to draw the following conclusions:

1. Analysis of the development of the banking sector in 2014-2016 indicates positive dynamics of the main indicators of commercial banks. Despite the less active development, they retained the tendency to increase the volume of banking transactions and investments in income-generating assets, which allowed to increase the total profit margin by 2,3 times compared with the previous period.

2. At the end of 2015 - early 2016, the unfavorable situation on world commodity and financial markets had a negative impact on the state of the economy and the financial sector of the country. As a result of the impact of external factors on the money and foreign exchange markets, there was high volatility and a shortage of tenge liquidity. In order to stabilize the situation on the financial market and mitigate the negative impact of external factors, the National Bank conducted operations to fill the shortage of tenge liquidity. In January 2016, in order to reduce the burden on banks, the mechanism of minimum reserve requirements was mitigated. In addition, in February 2016, measures were taken to increase the attractiveness of tenge assets. Also, the recommended rates on deposits in tenge were raised from 10% to 14%, and rates on deposits in foreign currency were reduced from 3% to 2%.

3. In order to manage credit risk, almost all banks supported a tight credit policy. Availability of loans to borrowers at the expense of banks' own funds was limited. Preference was given to lending to existing customers operating in industries with less susceptibility to the crisis, and retaining the client base.

4. The issue of non-performing loans remains unresolved, which will limit the growth of the banking sector in Kazakhstan. At the same time, improving the quality of the loan portfolio will require a longer period of time.

5. As a result of the analysis of financial stability of JSC «Tsesnabank» for 2014-2016 it was revealed that the coefficients calculated in accordance with the rules on the implementation of prudential standards are maintained within the permissible limits. The conducted analysis of the coefficients that allow to judge the effectiveness of management, led to the conclusion that the bank has minor problems that can be solved by the bank.

6. In order to strengthen the reliability and enhance the financial stability of JSC

«Tsesnabank», are required the following management decisions:

- Growth in the volume of income assets, in particular, an increase in the volume of car loans by lowering interest rates for the purchase of a vehicle;
- Optimization and diversification of the bank's resource base. To increase the stability of resources, in particular, to increase the reserve fund, it is proposed to conduct the issue securities. The increase in equity capital will also improve the reliability and bank stability;
- Diversification of operating assets and, accordingly, the sources of the bank's income. This direction can also be realized by conducting the issue securities;
- Increase in revenue on settlement and cash services by improving the quality of services and increasing the number of branches of the Bank;
- Optimizing the structure of the bank's expenses by reducing administrative and business expenses;
- Automation of business processes through the introduction of modern banking systems.

The above will help to optimize Tsesnabank's balance structure, significantly improve its profitability, diversify the risks in the areas of activity, improve the quality of assets and liabilities, which will generally have a beneficial effect on the financial condition of the bank.

7. In the research was analyzed the financial stability of JSC «Tsesnabank» according to the CAMEL system.

On the scale of the bank's profitability assessment by the CAMEL system, the coefficient of profitability of the assets of JSC «Tsesnabank» was 1.73%, which corresponds to the rating on this scale - "strong".

According to data of JSC «Tsesnabank», it can be noted that the bank has more than enough liquid assets or free access to external sources, thus, according to the CAMEL system, the bank has a rating of 1 (strong).

According to the CAMEL rating, the bank is rated 1 (strong), because the guidance (at all levels) effectively performs its duties in any situation and demonstrates a constant willingness to successfully cope with the existing or unforeseen problems that may arise as the bank fulfills its responsibilities. All significant risks in the bank's activities are monitored and effectively controlled by the top management.

8. It is recommended to apply the expert approach in the analysis of commercial banks, which allows to solve three important problems of banking analysis. First, take into account all the essential individual characteristics of the bank and adequately reflect them in general conclusions. Secondly, take into account not only quantitative, but also qualitative

information on the state of the bank, which is often the most significant and objective. So, the fate of the bank is ultimately determined by people, and people tend to think not in numbers but in non-verbal figures. Thirdly, a person who has long worked in the subject area and is well versed in nuances, accumulates rich experience and valuable knowledge, which, often cannot be used within the framework of standard methods, at least in a formalized form. Expert procedures make it possible to remove this problem.

9. The development of banking in a risky and ever-changing external environment forces oversight bodies to improve the methodology and practice of identifying risk assessments, as well as ways to prevent and avoid "freelance" situations. The driving forces of the improvement of this system are, on the one hand, the development of meaningful representations about the tasks of supervision and the methods for their effective resolution, and on the other hand, the restrictions imposed on the system of supervision by the capabilities of the state.

10. In the work it is proposed to use the modernized methodology for the CAMEL system, in which it is necessary to add one more step in the calculation of the bank's reliability. Thus, the new methodology will consist of three stages:

- Obtaining numerical estimates of the values of the primary components of reliability based on their expert estimates. The transition from expert (non-numerical) estimates to numerical estimates of components depends on the variant of using the rating system (analysis of a single bank or analysis of a group of banks);

- Obtaining numerical estimates of the main components by weighted summation of numerical estimates of the primary components of reliability;

- Obtaining a numerical estimate of the overall reliability of the bank by weighted summation of numerical estimates of its main components. At this stage of the calculation, work is carried out only with numerical values, in contrast to the analogous stage of the classical technique, where quasi-numeric expert estimates are incorrectly summed up.

11. In the author's interpretation of the concept of "financial state of the bank" is defined as the financial condition of a commercial bank as a complex information system that characterizes the current position of a commercial bank in terms of the financial resources necessary for normal operation and effective implementation of financial relationships with legal entities and individuals, solvency, and financial stability.

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